

THE FEDERAL FARM LOAN SYSTEM

HERBERT MYRICK

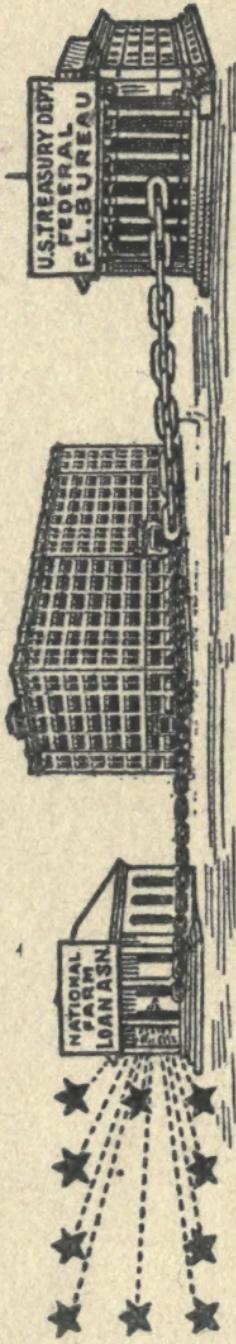


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How the New Federal Farm Loan System Works

Ten or more farm owners, who wish to borrow on mortgage for long time at reasonable interest:

All these local associations in all the states within their federal land bank district invest all their capital in shares of the



EACH OF THESE STARS

Is supposed to indicate one farmer in said group of ten or more farmers.

Each farmer pays par, \$5, for one share in his national farm loan association for each \$100 he wishes to borrow upon a long term first mortgage on his farm at not to exceed 50% of its value. His liability for the association's debts is limited to this \$5 and as much more, \$10 in all.

The national farm loan association indorses its members' mortgage notes, cashing same for full amount at its federal land bank, and turns all the money over to the borrower. Annually or

NATIONAL FARM LOAN ASSOCIAT'N

It does not require a building and operates at almost no expense.

FEDERAL LAND BANK

for that district. Each member association has one vote for each share. Block owned by others does not vote and is to be redeemed eventually and resold to new associations.

FEDERAL FARM LOAN BOARD

A bureau in the United States treasury department at Washington, D. C.

twice a year borrowers pay a regular sum as dues, including (1) their interest, (2) a fraction for expenses, and the balance applies upon principal.

The federal land bank sells bonds secured by these indorsed mortgages and thus gets more money to lend. The 12 land banks are jointly and severally liable for all the bonds. The bonds are legal investment for almost every fund.

All these notes, shares, bonds, capital and surplus are tax exempt, because the land is taxed.

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THE FEDERAL FARM LOAN SYSTEM

NEW METHOD OF
FARM MORTGAGE FINANCE, UNDER
NATIONAL SUPERVISION

A Practical Manual upon organizing and conducting na-
tional farm loan associations, also joint stock land banks.

Showing how farmers, investors, bankers and the public
may obtain the fullest benefit of the system.

BY HERBERT MYRICK
Director

FEDERAL LAND BANK OF SPRINGFIELD

AUTHOR OF
“CO-OPERATIVE FINANCE”
“HOW TO CO-OPERATE”

Etc., Etc.

158138

29.12.20

INCLUDING FULL TEXT OF THE FEDERAL FARM LOAN ACT

NEW YORK
ORANGE JUDD COMPANY

1920

How the new system has worked
out in actual practice appears in the
new statement on pages 171-172

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FOREWORD



THE Federal Farm Loan System of 1916 possesses potentialities of transcendent importance to the American people. Utilized to the utmost by farmers and investors, with the patriotic aid of the business interests whose welfare is dependent upon a prosperous agriculture, the new statute may prove to be epochal in its economic and social benefits.

The new law is not perfect. It is the work of many minds. It is a well-thought-out basis for a system that (1) could command the necessary votes to become a national law, and (2) bids fair to accomplish the purposes it aims to serve.

The object of this book is to aid those who so desire to enjoy all the advantages of the new Federal Farm Loan System

The Act is the Magna Charta of American farm finance.

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CHAPTER ONE

PURPOSE OF THE FEDERAL FARM LOAN SYSTEM

THE best safe investment is a first mortgage on a good farm owned, occupied and operated by a good farmer.

So true is this in the United States that farm mortgages constitute one of the largest classes of investment. The total of farm mortgages now held by American investors probably exceeds 6,000 millions of dollars, compared to nearly 12,000 millions of railroad bonds.

Equity in Farm Mortgages. The average farm mortgage is now probably about one-quarter of the fair value of the mortgaged property. Thus the borrowing farmer's equity in his land and buildings averages seventy-five per cent.

Stockholders' equity in our railroads is a vastly less proportion. The banks of the United States possess an equity of only 15 to 25 per cent in their own resources, because they owe 75 to 85 per cent of their resources to their depositors. Banks and railroads do business mostly upon other people's money,

farmers own nearly three-quarters of the capital they employ.

Because farm mortgages are not only safe but yield relatively high rates of interest, they have become a favorite investment with the largest and most conservative of American insurance companies. Those ultra careful corporations now own over \$700,000,000 in farm mortgages, mostly upon property in the Western and Southern states.

The superiority of farm mortgages over other securities of the most conservative character, is proven also by long experience in Europe. Even during normal times, bonds secured by first mortgages on farms in Germany usually sell at about the same price as imperial government bonds bearing the same interest.

Under abnormal conditions, when war suggests the dangers that confront a dynasty, people sell imperial bonds and buy farm bonds, knowing that though governments may be imperiled or dynasties fall, the land remains, the people must be fed, therefore landed security is the ultimate safe investment.

Entitled to Better Facilities. In spite of the recognized advantages of farm mortgages for investment, the American farmer is forced to pay dearly for the money he borrows upon his note secured by an underlying first mortgage upon his farm.

Often the farmer pays an excessive commission, brokerage or bonus to the agent through whom the loan is obtained. These charges are exacted again, in full or in part, at each renewal of the loan, which may come every three or five years.

The result is that the farmer supports a vast, elaborate and expensive system of middle men or intermediaries between the actual borrower and the ultimate investor.

Besides the various costs of the old method, however disguised, the farm borrower too often is compelled to pay a rate of interest which is abnormally high relative to the gilt-edge nature of his security and the stability of farm credits.

Few conveniences are afforded the farm borrower, under this old system, for reducing the principal of his debt. No inducements are extended whereby he may pay a little upon his debt at periodic intervals. The con-

sequence is that the farm borrower may renew his obligation for the full amount, perhaps repeatedly, with all the expenses attendant upon each renewal.

All these unfavorable conditions, including dear rates and high charges, have a tendency to keep the farm borrower in debt instead of encouraging him to get out of debt.

Moreover, in some sections it often has been difficult for even successful farmers to obtain first mortgage loans at any price. Even in the Middle and Eastern states where loans are made by individuals and savings banks directly to farmers, possibly without commissions and as low as five per cent interest, it often has been difficult for the farmer to get funds.

Efforts Toward Reform. These and other abuses which might be detailed became so painfully apparent, the economic waste involved in the old method was so evident, that over 25 years ago the author inveighed against it and suggested the necessary reforms. The amazing success of the wage earners' co-operative building and loan association—a type of institution originated and perfected in the United States and now being imitated

abroad—emphasized the benefits that would accrue from a feasible adaptation of organized co-operative finance to long-term farm mortgage loans.

Federal Reserve Act. Meanwhile agitation became keen for the reform of the currency and of banking, and for the better mobilizing of commercial credits. The Aldrich plan to this end was repudiated by an indignant people, and the Federal Reserve Act became a national statute December 23, 1913. It includes many of the principles laid down in the author's work *Co-operative Finance*, published in October, 1912. Whether the Federal Reserve Act will suitably facilitate short-term or seasonal credits for agricultural purposes remains to be demonstrated.

Agitation for Farm Finance. The debate over currency reform was seized upon to accentuate the need of reform in farm mortgage banking, as presented in *Co-operative Finance*. Emphasis was also laid upon the need of more adequate co-operation among farmers in marketing their products, as well as in purchasing their supplies and mobilizing their real and personal credits.

American Commission. The methods by which all this had been accomplished in France, Germany and other foreign countries were brought to the attention of statesmen and politicians in addresses, books and pamphlets from numerous interested parties. By its resolution of March 4, 1913, Congress instructed the President to appoint an American Commission to investigate the rural credit system of other countries.

Its voluminous report in 1914 was worth the labor and money expended by the commission, as showing what *not* to do, and as indicating that the true remedy lay in better adapting American methods and American experience to American conditions.

Federal Farm Loan Act. Meanwhile the many rural credit bills which had been introduced in Congress, were referred to the Senate and House committees on banking. They reported separate bills, both of which were passed by the respective branches in the closing hours of the 63d Congress, March, 1915. The time being too short to harmonize the differences in the two drafts, the whole subject was then referred to a joint sub-committee for further consideration.

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On May 3, 1916, the Senate passed, with only five dissenting votes, the new bill as reported from its banking committee. The House draft was passed in that body a few days later with only ten votes in the negative. The conferees reported in June the bill they had agreed upon, it was ratified promptly by Senate and House, by a practically unanimous vote, and by President Wilson's approving signature on July 17, 1916, became the Federal Farm Loan Act.

Purpose of the Act. It aims to provide a system that shall meet the needs which have been so fully revealed by these long years of discussion. These needs are epitomized earlier in this chapter.

The specific purposes of the Act are well set out in its title:

“A bill to provide capital for agricultural development, to create a standard form of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to provide for the investment of postal savings deposits, to create government depositaries and financial agents for the United States, and for other purposes.”

CHAPTER TWO

PRINCIPLES OF THE NEW SYSTEM

ALTHOUGH a first mortgage on a good farm operated by a good farmer is unquestionably the best safe investment, heretofore it has been open to the following objections:

1. It is secured by a lien on a single farm, and thus the value of the mortgage, as well as the income from it, are governed by the conditions which may affect that particular farm and farmer from year to year.
2. Being written for a period of three to five years, or upon demand, such an investment may not be sold readily by the borrower or by the holder who wishes to realize upon it.
3. Unless some middleman is employed for the purpose, the holder of the mortgage may not receive the interest with desired regularity, for while the borrower is perfectly good, he may not always be prompt.
4. Usually the holder of such a mortgage does not care to have the principal reduced by small payments, even at regular intervals.

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5. By this old method of investment in single mortgages, there is little incentive to thrift upon the part either of the borrower or the lender.

Objections Overcome. The federal farm loan act proposes to obviate all of the foregoing objections, to mobilize improved farm land as a basis of credit, and so to mobilize the credit instruments themselves that they shall be free not only from the objections cited, but from others which might be mentioned.

The object is to accomplish this by a method which shall encourage the borrower to get out of debt, prove more attractive to the investor, encourage thrift, foster the profitable investment of savings in farm development, and thus create a veritable "endless chain of prosperity." The economic methods required to accomplish these purposes, also will have far-reaching social and civic influence by reason of the co-operative principles embodied in the statute.

Co-operation Required. For farmers to unite in little local societies for the better marketing of their mortgage credits implies more of mutual confidence and less of mutual suspicion. Such union means united effort

among individuals; and joint service, voluntarily performed and necessarily persisted in, reacts beneficially upon the individual. It tends to bring out those social, ethical and spiritual attributes which add so much to the joy, the glory, and the usefulness of life. The co-operative spirit may be better sensed than described—like love, it can be felt rather than expressed!

The fact that the plan of the proposed reconstruction of farm realty credits is based largely upon the coming together of ten or more individuals, in a united group, proves that one of the underlying principles of the federal farm loan act is the encouragement of the co-operative idea. This principle was epitomized years ago in the author's book "How to Co-operate" as follows:

"The true way out of the evils that now afflict both producers and consumers is through an agency which already exists. It is right at hand. Its ways are the method of peace. This agency requires no favored legislation, no political revolution, no social overthrow. It builds up instead of tearing down. Yet its success has been abundantly demonstrated under the most adverse circumstances. It is as permanent as a human institution may be. It supplies its own capital, insures its own prosperity, and increases in practical beneficence with age. Thoroughly Christian in

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nature and application, no phase of belief can take exceptions to it. Nor does it antagonize the reforms in politics and government and taxation, in land or finance or transportation, that are now so prominent in the public mind.

“In one sense independent of all these, in another view it is indispensable to any reform that is to be of lasting benefit to the whole community. Yet it is intensely practical, perfectly adapted to country, town or city, within the reach of all grades of people, and thoroughly suited to the varied needs and capacities of producers and consumers in all the great vocations of life. Moreover, it interferes with no reasonable effort to ameliorate the conditions of society, but extends to such the hand of fellowship. Above all, it in no possible way antagonizes any farmers’ secret orders or open organizations, and in no manner interferes with trade unions or labor associations. Yet it is an agency through which all such orders, organizations, unions and associations may immensely stimulate and perpetuate their usefulness.

“The true way out is summed up in the one word—Co-operation.”

The advantages of co-operation in general, as expressed in the work referred to, apply with peculiar force to the mobilization of farm credits:

1. The greatest advantage of co-operation is that it enables “the common people”—as Abraham Lincoln used the term—to help themselves.

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2. It promotes thrift, sobriety, morality, neighborliness, kindness, courtesy, intelligence, self-thinking and good citizenship.
3. It can adapt itself to secure its advantages to "all sorts and conditions of men, including men of various nationalities."
4. It interferes with no private rights or individual opinions.
5. It substitutes the beneficence of co-operation for the warfare of competition.
6. It pays labor fairly, adds to savings and yields a reasonable hire to capital.
7. It enables the people to govern and divide their earnings instead of having capital rule industry and absorb the profits thereof.
8. It converts the love of money and the power of the "almighty dollar" into the greatest of human agencies for the amelioration of society.
9. It "begins in mutual help, with a view to end in a common competence."
10. It avoids the fallacy of "equal division of unequal earnings," but rewards according to merit.
11. It means "concert for the diffusion of wealth."
12. It is not philanthropy, neither is it mendicant, servile or offensive, yet possesses the spirit of charity without sacrifice of practical utility.
13. "It touches no man's fortunes; it seeks no plunder; it causes no disturbance in society; it gives no trouble to statesmen; it need enter no secret associations; it needs no trades-unions to protect its interests; it contemplates no violence; it subverts no order; it envies no dignity; it expects no gift nor asks

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any favor; it keeps no terms with the idle and it will break no faith with the industrious."

14. It uses circumstances to advance its principles, instead of wasting energy to advance its principles against circumstances.

15. It insures against mistakes by educating co-operators to a clear idea of what they are doing, uniting such thought with action.

16. It gives men and women a knowledge of business they could not otherwise obtain.

17. It enables men to get out of debt and to keep out of debt, and correspondingly alleviates other forms of distress.

18. It creates a field for individual energy and security for its reward while avoiding the warfare of competition.

19. It is really the only efficient way in which the masses can advance.

20. It promotes sound sense, good temper and good-will.

21. It reduces expenses, bringing producer and consumer together, giving the former a fair profit, while furnishing the latter at a reasonable price articles which are honest in quantity and quality.

22. It is equity in business, and it makes equity pay.

23. It is a definite, practical thing, all of whose principles and parts can be brought into view and understood at once.

24. It recognizes capital as an expense, whose hire is to be paid, but after this (like other expenses) is

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met, "labor by brain or hand is the sole claimant of profits."

25. It delivers the public from the middlemen, capitalists and monopolists who would make the laborer work for the least and the consumer pay the utmost.

26. It makes saving attractive, easy and inevitable without self-denial or effort on the part of the individual. And finally, to quote more fully and literally its distinguished apostle (Holyoake): "Co-operation was born of the feeling that at best unmitigated competition was but an organized war, and though war had its great conquests, its bards, its proud associations and heroic memories, there was murder in its march; and humanity and genius were things to blush for, if progress could not be accomplished by some nobler means; what an enduring truce is to war, co-operation is to the never ceasing conflict between Labor and Capital—it is the Peace of Industry."

Efficient Management — Practice, Not Theory. While the co-operative principle is at the root of the statute, the federal farm loan act calls for the utmost efficiency in its administration.

It is not a scheme of visionary enthusiasts to reform the world. "It is not a sure way to ease and comfort for the shiftless who won't work, who will not pay their just debts, and who refuse to pay others for working for them."

The federal farm loan plan is not a means whereby the landless who know nothing about agriculture, may by some mysterious alchemy acquire overnight such complete knowledge of the practice and science of farming as to make a brilliant success of the industry upon the land they may acquire with the assistance of the act. The new system does not seek to place on the land those whose ignorance of farming is surpassed only by their lack of capital.

“Back to the Land.” Well-meaning city people, including some alleged social workers, have had much to say about the “back to the land movement,” meaning by that the placing of city families upon small tracts. Even if financed by philanthropy, such movements are foredoomed to failure, unless the beneficiaries are first trained in agricultural practice and in country life. It is neither wise nor charitable to place a city family on the land without capital or previous training for rural life and practical farming.

If such people really have a hankering for the farm, let them hire out for a season or a year to some good farmer. Owing to the dearth of farm help, any number of such po-

sitions are available on farms within from 10 to 100 miles of any city. In these places the mechanic or the city person may acquire, at the employing farmer's expense, the experience in the various branches of agriculture which he must have before he can expect to succeed on a farm of his own.

At the same time the employee's wife, by her work in the farmer's household, will learn what she needs to know in order to be a help-meet rather than merely a help-eat when she and her husband acquire a homestead of their own.

If the city family, the townbred man or woman, is not willing to acquire in this way the practical knowledge that they so much need, at the expense of their employer and at the same time earning fair wages and a good living, they are not the stuff that farmers are made of. The city folk who thus do work and earn while they learn what they do not know about farming, stand a fair chance to succeed, be happy and contented and gradually acquire a modest competency as well as a little farm and home of their own.

Borrowers Must Have Some Capital.
Neither does the act propose to set up in

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business even the practical farmer and his family who may have had some experience in agriculture but who possess no capital whatever. Such people should acquire some means by saving their wages earned by working for others, or by farming on shares or other form of tenantry.

Starting with only their hands and head, but by practicing such thrift, probably more than a million farmers now living in the United States have acquired farmsteads of their own, and a majority of them today are out of debt. What they have done others can do, as described in more detail in the succeeding chapter.

Helping the Real Farmer. But any responsible farmer of either sex who can raise sufficient capital to pay down half of the fair value of a farm, may obtain the other half of the capital required by this system by joining with the national farm loan association located in the vicinity of the farm.

The farmer who cannot otherwise raise all the needed capital, usually may secure the difference by a second mortgage. For instance, a man experienced in agriculture may have say \$1500, and wishes to buy a farm

worth \$4000. He gets \$2000 on first mortgage from his national farm loan association, he induces the seller to take a second mortgage for say \$1000, he pays the remaining \$1000 out of his own \$1500 and has a cash balance in hand of \$500 for working capital.

Not only may the farmer obtain capital through his own national farm loan association right in his own locality, but membership therein brings him in closer touch with his neighbors and with the other members. As this little local incorporated company has indorsed the mortgage notes of each of its members, one and all are interested in the success of each. This desirable co-operation is accomplished safely, for each member avoids anything in the nature of joint and several obligation, his personal liability being strictly limited and fixed.

For obvious reasons the local associations will meet frequently to interchange views and experience. The members will help each other in grappling with the problems that come up on their respective farms under similar conditions. The local branch or association also will be a center for disseminating to its members information from other sources whenever it may be beneficial.

Fundamental Preparedness. Thus the federal farm loan act is based primarily upon helping the individual farmer to help himself by means that are sound economically and socially, grounded in self-interest, and fostered by co-operation.

To encourage the development of such farms and rural homes, owned, occupied and successfully cultivated by their owners, is fundamental preparedness. Such development is based upon and comes up from the farmers themselves, instead of being handed down to them from above.

The experience in business and finance upon which the successful administration of the plan depends, will come partly from the federal land bank of which each local association is a member, and through the land bank from the federal farm loan board. If those bodies are composed of the right type of men, success will be the more assured. The danger is that incompetent bureaucrats may get in as a reward for political service. However, the conduct of the whole system, from the individual farm borrower up through the local association, land bank and federal farm loan board, is under heavy penalty for any form of incom-

petence, misrepresentation, graft, fraud or failure to meet just obligations.

Penalties. It will be observed that section 31 of this act, as reprinted complete in the Appendix to this work, provides penalties not exceeding \$5,000 fine or one year's imprisonment, or both, for about any or all offenses that may be committed against the law. The secret service division may be employed to detect, arrest and deliver into custody anyone violating the statute.

Any attempt to impose upon the system, or to secure loans unfairly or issue bonds without adequate security, will be visited with condign punishment. The whole plan is admirably designed to guard against any form of abuse, and the penalty for violation is such as to deter evil doers.

Investors and Thrift. The principles epitomized in this chapter are enforced in order that the credit instruments resulting from the system may prove of the utmost attractiveness to investors. Indeed, the theory is that federal farm loan bonds in small denominations may become a wonderful incentive to thrift on the part of people whose little funds now "slip through their fingers," as well

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as popular among the well-to-do, and as large investments for wealthy individuals, corporations and insurance companies.

What social and civic benefits may not be furthered when all the people actually own an interest in the ground that feeds them, by virtue of their investment in farm loan bonds!

Because some or all of these principles are relatively new in their application, the federal farm loan act also provides that existing banks under state law may act as agents for federal land banks by methods which seem to combine safety with practicability. For the same reason joint stock land banks may be incorporated under the federal farm loan act—one of its features for which much has been said for and against.

CHAPTER THREE

THE INDIVIDUAL FARMER'S PART

THE American farmer is extremely individualistic and independent. Only now does he begin to realize the power of joint action. Heretofore he has been slow to co-operate with his neighbors, partly because he was afraid of becoming mixed up in some personal liability for others' obligations.

Fear of Joint Liability. While comparatively few farmers keep books of account, nearly all farmers know at all times about where they stand financially. This is one reason why they shun anything in the nature of joint and several obligation for the debts of others. So many farmers have suffered loss by personal indorsements of others' paper, or by becoming personally responsible for the obligations of unincorporated effort, that now they dread anything of the kind, just as a burnt child dreads the fire.

Farmers' Integrity. Another reason for this conviction on the farmer's part, is that he has a very high sense of financial responsi-

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bility. In banker's parlance, he may be slow, but almost inevitably the farmer is good for anything he contracts for. Indeed, this is one secret of the present vast and constantly increasing agricultural trade. Because the responsible farmer has such a high sense of personal and financial integrity, is another reason why he is loath to incur anything in the nature of unlimited liability.

Many a farmer has joined with his neighbors in informal effort at buying together or selling together, only to find that some one member or a very few irresponsibles fail to carry their share, which he pays as a moral debt, though he has no legal obligation to do so.

This speaks well for the credit of the responsible farmer at the same time that it suggests business efficiency in dealing with the relatively few irresponsibles, and enforces the need of practical means of helping farmers to help themselves.

Brilliant Success of Co-operation. On the other hand, brilliant success has been achieved by farmers' elevators, co-operative creameries, mutual fire insurance companies and other co-operative enterprises in which each member's liability is strictly limited, yet

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which enjoy all the benefits of associated effort through efficient management.

When farmers join in such an incorporation they know that their liability is strictly limited to the amount of money they pay for their shares. Each and all know that every member has paid in his money on the same basis. They realize that the success of such an incorporated corporation upon the co-operative plan depends upon the extent to which it is patronized by its members, as well as upon the business ability with which it is conducted.

Efficient Management. Recognition of these essentials inspires the confidence that breeds success. By starting on this basis and adhering to it, any form of associated effort rests on a firm foundation, for it cannot be reiterated too often that co-operation is "not a new plan of transacting business, but rather a different method of dividing the fruits of industry. The same principles that govern business success in acquiring profit on capital," apply to the acquirement of savings to co-operating creditors and to the insurance of fair returns to investors in federal farm loan bonds.

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Industry, application, perseverance, good judgment, expert knowledge, sound administration, economy, honesty, wise choice of risks, insistence upon regular payments, enforcement of contracts, all are as much required in the institutions chartered under the federal farm loan act, as they are needed for the successful conduct of each national and state bank which is under the federal reserve system.

Farmers Favor Businesslike Methods. The individual farmer is quick to recognize these truths. Because these principles are required of him in his own relations with the federal farm loan plan, the farmer knows that the same insurance of success is applied to the affairs of his national farm loan association, of the land bank to which it belongs, and of the federal farm loan board through which all the federal land banks are affiliated for the mutual protection of every borrower from and investor in the system.

Experience may be trusted to develop in both the borrower and the investor their implicit confidence in the whole system, upon which confidence depends the largest and most enduring success of the undertaking.

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With such confidence, the beneficent possibilities of the system are limitless. However, confidence is of slow growth. It must be earned—it cannot be given.

With this sound basis of procedure, the individual farmer only needs to fully realize the benefits obtainable under the federal farm loan act, to promptly do the little it requires of him. Experience has shown that he is entitled to credit, that his word is as good as his bond. It is now possible for him to co-operate with his neighbors so that all may legitimately “cash in” upon the reputation they have established.

Advantages to the Farmer. Addressing this individual farmer, I am now able to say: If you will do your part, by forming or joining your own national farm loan association in your own vicinity, it is possible for you to do these things:

1. Upon your long-time note, secured by a first mortgage upon your farm, to obtain a loan up to 50 per cent of the fair value of your farm real estate, plus 20 per cent of the insured value of the improvements thereon.

2. To get this money at a considerably lower rate of interest than has heretofore prevailed, at least in some sections.

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3. To have a chance to get your rate of interest down still more, when you and other farm borrowers have shown that you are so entitled to credit that lenders will gladly let you have the money at lower rates.

4. To pay a little something on the principal each six months, say not less than one-half of one per cent.

5. To have the saving of simple and compound interest upon your gradually reducing principal accrue to your benefit so as to still further reduce your debt.

6. Thus to be able to pay off your debt "almost without feeling it."

7. To have the privilege of paying off your debt still faster at any interest date, and to discharge it in full after five years.

8. But to have the indebtedness spread over so long a period as to render little the semi-annual payment, and thus insure that you will be absolutely able to keep up your very modest semi-annual dues, so that your mortgage cannot be foreclosed.

9. To have the right to let your note run for not less than five years, nor more than 40 years, so that while you obligate yourself to pay it off only a trifle at a time, you re-

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serve the right to pay it off more rapidly when and as you wish.

10. You or any member of your family, or anyone else for that matter, may invest your savings in federal farm loan bonds, than which there is no better investment.

11. When the last of your mortgage is discharged, you get back the relatively small amount you invested in the shares of your local association, upon which you will have received fair interest meanwhile.

12. You have to invest in the shares of your local branch only \$5 for each \$100 you wish to borrow. In fact, this amount may be included in your loan or rather deducted from it. It is this investment which is returned to you in full when your mortgage is finally discharged, and upon which you will have had interest meanwhile.

13. By holding this share, your personal liability is strictly limited. As a member, you are liable for the debts of the association only to the amount of your shares and as much more. You do not indorse the notes or mortgages of other members. You are not responsible for their debts to the association. The liability upon your own land is strictly

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limited to the amount of your own mortgage thereon, the same as by the old system of borrowing.

14. If you and your brother farmers do your part, the whole system may be controlled practically by the borrowing farmers. Thus it is squarely up to you to "make good," by the simple, practical and efficient means the plan affords whereby you may insure that you will make good.

15. This thoroughly American plan of American farm finance is the best system yet devised for the farmer, but if you don't organize to control it yourself, how can you complain if capitalists organize the joint stock land banks the act authorizes?

Strict Limitation of Liability. The strictly limited liability incurred by the individual farmer deserves to be further emphasized. The precise language of the law on this point reads:

"Shareholders of every national farm loan association shall be held INDIVIDUALLY responsible, equally and ratably, and NOT one for another, for all contracts, debts and engagements of such association to the extent of the amount of stock owned by them at the par

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value thereof, in addition to the amount paid in and represented by their shares."

For instance, suppose you hold 10 shares amounting to \$50. If the association got into financial difficulties, you might lose some part or all of the \$50 you paid in for your shares. If all the land of the members were washed away or blew up, and all the members failed to meet their payments—which is all quite unthinkable—you might be called upon for as much as \$50 more. But you could not be assessed one penny in excess of \$100, or double the amount you originally put in for shares. This is the same double liability that inheres to shares of national banks under the national banking act.

It should be almost impossible, under the strict supervision which the new system provides, for any national farm loan association to get so deeply involved as to cost the shareholders any part of the money they paid in for shares. Other than as above explained, there is no liability upon the part of the member in any way, shape or manner.

Remoteness of Possible Loss. It may be further pointed out to the borrowing farmer:

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Even if some misfortune of nature or man did befall the national farm loan association of which you are a member, to make up for which it took some part or all of the \$50 you paid in originally for your shares, or may even have called upon you for some part or all of \$50 more, your liability is strictly limited thereto. For in the event of such misfortune, your own farm, even though mortgaged to the association, is not further involved in any way.

In the instance cited, you paid \$50 for 10 shares because you wanted to borrow \$1,000 on a long-time mortgage on your farm worth \$2,000 or more. Now if some calamity killed all the other members and even washed away their land, but left you alive and your property intact, even in that almost unimaginable event, you could be called to pay up only \$50 more than the \$50 you paid in originally for your shares. In other words, even in such a case, your liability is strictly limited to \$100.

Now, suppose that at the time this quite impossible calamity occurred, there was a balance due from you of \$500 on your mortgage. The mortgage, though indorsed by your local association, is in fact held by the

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federal land bank, to which you must continue to pay the installments as they come due under the contract. As long as you do that, your mortgage can never be called or foreclosed. And no matter what happens to other members or to their property, your farm, your home, all the real estate covered by your mortgage, is free from any liability whatever to the other members or to the holders of securities for which the various mortgages are held as collateral by the federal land bank. The extra \$50 on your shares measures the utmost limit of your liability, except the balance owned by yourself upon your own note and mortgage.

Protecting the Investor. On the other hand, experience having shown that a first mortgage on improved farms is so safe, the investor in bonds secured by such mortgages is still further insured upon their principal and income, by reason of the fact that the national farm loan association of which you are a member has indorsed your note and mortgage, thus guaranteeing your debt to the extent of the entire paid in capital stock of the association, plus as much more for which you and each of the other members are bound pro rata

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as above stated—but individually and each for himself.

Protection to Lenders. Thus, while each farmer who is a member of the local branch has his liability thereto strictly limited as above described, yet at the same time, the investor has the further insurance of the local association's backing, as well as the guarantee of the land bank. And the latter is still further insured by the joint liability of all twelve federal land banks.

In this simple but efficient way, each farmer's liability is strictly limited, yet each investor's security is absolutely insured beyond a peradventure.

CHAPTER FOUR

NATIONAL FARM LOAN ASSOCIATIONS

NEXT to the individual farm and farmer, the federal farm loan system is based fundamentally upon local units composed of ten or more farmer borrowers. The act authorizes such farmers to organize their own club through which to borrow money at reasonable rates on long-time and easy terms of repayment upon the security of first farm mortgages.

Such a club the act denominates a "national farm loan association." In common language, it will be called a "local association," or still more briefly, a "local" of the federal land bank of which it is a member.

How Composed. Any farm loan association, to quote the statute, "may be organized by persons desiring to borrow money on farm mortgage security under the terms of this act."

"Ten or more natural persons who are the owners, or are about to become owners, of farm land qualified as security for a mortgage

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loan under section 12 of this act may unite to form a national farm loan association."

The qualifications referred to in section 12 pertain to the purposes for which loans may be made, payment of interest and principal, etc., as fully detailed in Chapter Ten.

"No persons other than borrowers on farm land mortgages shall be members or shareholders of national farm loan associations."

"No such loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the farm mortgaged."

How Organized. Each federal land bank doubtless will furnish a blank form to be signed by the farmers who wish to form a national farm loan association.

"Any person desiring to borrow on farm land mortgage through a national farm loan association, shall subscribe for shares of stock in such farm land association to an amount equal to five per centum of the face of the desired loan, said subscription to be paid in cash upon the granting of the loan." This means that each would-be member must pay \$5 for one share of the par value of \$5 for each \$100 he wishes to borrow.

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The only limit to the number of farmers who may apply for a charter for their national farm loan association is that they shall be ten or more. Other things being equal, the larger the number of farmers who join in making the application, the better it will be.

The application is to be accompanied by an affidavit "stating that each of the subscribers is the owner, or is about to become the owner, of farm land qualified under section twelve of this act as the basis of a mortgage loan; that the loan desired by each person is not less than \$100 nor more than \$10,000, and that the aggregate of the desired loans is not less than \$20,000."

The application for charter is accompanied by a subscription at par to stock in the federal land bank by the would-be national farm loan association equal to five per cent of the total sum desired on mortgage loans. In other words, each national farm loan association agrees to invest in land bank shares all the money it gets from its own members for shares in its own association.

"Upon receipt of the necessary papers, the directors of the federal land bank shall send an appraiser to investigate the solvency and

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character of the applicants and the value of their lands, and shall then determine whether in their judgment a charter should be granted to such association." Their recommendation and the papers are then sent to the federal farm loan board at Washington. "If said recommendation is unfavorable, the charter can be refused," but if it is favorable the board "shall thereupon grant a charter to the applicants therefor, designating the territory in which such an association may make loans, and shall forward said charter to said applicants through said federal land bank." However, the board "may for good cause shown in any case refuse to grant a charter."

Authority of Associations. Upon receipt of its charter, such "national farm loan association shall be authorized and empowered to receive from the federal land bank of the district sums to be loaned to its members under the terms and conditions of this act."

The farmers comprising the association choose a board of not less than five directors, which shall elect a president, vice-president, secretary-treasurer and a loan committee of three members. "All officers and directors, except the secretary-treasurer, shall during

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their term of office, be bona fide residents within the territory where the association is authorized to do business, and shall be shareholders of the association."

The shares in each national farm loan association have a par value of \$5—the true co-operative unit. Each member shall have one vote for each \$5 share, but no one may cast more than 20 votes. To be strictly co-operative, it should be one member one vote, but the limitation noted practically means that every member who borrows \$1000 or more shall have but 20 votes, while those who borrow less than \$1000 shall have one vote for each \$100 borrowed.

Admitting Members. After the charter has been granted, "any natural person who is the owner, or about to become the owner, of farm land qualified under section 12 of this act as the basis of a mortgage loan, and who desires to borrow on a mortgage of such farm land, may become a member of the association by a two-thirds vote of the directors, upon subscribing for one share of the capital stock for each \$100 of the face value of his proposed loan."

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Once the national farm loan association has received its charter, membership therein may be denied or accepted by two-thirds vote of the directors. In this way the farmers' own local borrowing society may control its membership in the interest of responsible farmers, bona fide settlers, and actual workers upon or cultivators of the farms proposed to be mortgaged. Thus speculators in land, nonresident landholders, landlords who own simply to let out their land to tenants, or other persons who are not bona fide farmers, may be excluded.

Even if a "local" should admit members or approve loans which for any reason may be undesirable or foreign to the practice of the act, such application for a loan from any association from any member of the latter could be rejected by the federal land bank.

Farmers Control. These safeguards are set up in order that the bona fide farmers in each community may control the proposed system in their own interest. This purpose is supplemented by the powers granted the federal land banks, also the authority vested in the federal farm loan board. But if farmers do not avail themselves of their powers, rights and privileges under the act, any federal

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land bank may establish branches as described in the next chapter, or incorporate joint stock land banks as described in Chapter Fifteen.

Capital. The only requirement as to the amount of paid up capital stock is that at all times it shall be equal to not less than five per cent of the original of the loans made to members and indorsed by the association. The only exception to this is that the association must start with not less than \$1,000 of capital subscribed for, in connection with the minimum of \$20,000 of loan applications required. The association can increase its capital to any amount not exceeding said five per cent, but may never decrease its capitalization below that limit.

Should any member of the association default in his payments of interest or principal, the association may be required to make it good, either in cash or in farm loan bonds. Provision is also made for the dissolution and receivership of any association which "has failed to meet its outstanding obligations of any description." But an association may not be declared insolvent by the federal farm loan board unless it has been in default for

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two years, and unless the total of defaults owed by all the associations in the land bank district amount to \$150,000 or more.

Small Expenses. The "local" requires no special building or pretentious offices. Its secretary-treasurer forwards its funds as they come in direct to the federal land bank of which it is a member. This official keeps a record of the members, of their mortgages and payments and therefore should receive a modest compensation for his services.

"The reasonable expenses of the secretary-treasurer, the loan committee and other officers and agents of national farm loan associations, and the salary of the secretary-treasurer, shall be paid from the general funds of the association, and the board of directors is authorized to set aside such sums as it deems requisite for that purpose and for other expenses of the association. When no such funds are available, the board of directors may levy an assessment on members in proportion to the amount of stock held by each, which may be repaid as soon as funds are available, or it may secure an advance from the federal land bank of the district, to be repaid with

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interest at the rate of 6 per cent per annum from dividends belonging to said association."

To pay for its petty organization expenses, such as a small safe, desk, chair, books of record, stationery and blank forms, the simplest plan will be for the local to require a small premium on each share, say one dollar. Since the property and all the assets belong to each member pro rata, there will be no objection to this plan. It is wise to have a little working cash on hand for minor expenses.

Temporary Advances. A local also has the right to apply to its land bank for an advance or loan not exceeding in the aggregate one-fourth of its total stockholding in the land bank.

The latter may grant such advances at a rate of interest not exceeding six per centum per annum. Instead of availing themselves of this privilege, however, it will be far better for each member of the local to pay in a petty sum for its operating expenses.

Revenues. Each local is to receive dividends upon its shares in the federal land bank. Part or all of this revenue may be distributed by the local as dividends to its own members

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upon their shares in the local. Any of its income from the land bank not thus distributed, the local may retain as a surplus or for its petty expenses.

The local is also entitled to a small commission upon each interest payment it collects on any loan indorsed by it. This commission is to be deducted by the local from such collection before forwarding same to the land bank. The law provides, however, that any amount so retained as commissions shall be deducted from dividends payable to the local by the land bank. In other words, the commissions if collected by the local are in effect an advance on dividend account.

The local may also derive some revenue by trading in federal farm loan bonds. It will be entitled to the same small commission upon such transactions that the federal farm loan board accords to other bankers or brokers.

The local cannot charge borrowers anything for its services in securing loans for them, but it need incur no expense in connection therewith. Only those experienced in co-operative building and loan association affairs can appreciate the almost vanishing minimum of expense with which it is possible a little local farm loan association may be conducted.

Voluntary Service for Honor. It is expected that no salary or perquisite of any kind shall be paid to any of the officers, committees or directors except the secretary-treasurer. Thus the system is primarily based upon patriotic volunteer service by those whom the members honor by election to office.

This principle of volunteer service in return for distinction bestowed, is the principle upon which has been developed during the past 50 and 100 years the vast number of purely mutual savings banks which have done so much to promote thrift and prosperity throughout our Eastern and Middle states. The same principle has been employed by the local co-operative building and loan associations, thousands of which are being conducted successfully and at minimum cost by wage earners and salaried people. For those classes of people the local building and loan association is the most perfect form of co-operative thrift yet devised, though hardly adapted to farm conditions because requiring weekly or monthly payments of dues.

There is no commission, bonus, "rake off" or graft for anyone in connection with the federal farm loan system. No group of

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farmers has to pay anybody any fee to organize them into a national farm loan association. They can readily do this themselves by following instructions, or their federal land bank will send a demonstrator to them for the purpose and without any charge whatever.

The secretary-treasurer of the national farm loan association in any locality, is the one official upon whose carefulness will depend much of its success. He need not be a farmer nor a shareholder, and after it gets well established may be paid such salary as its modest income justifies.

The position will be one of honor, responsibility and service, with all the incidental advantages, which may be worth far more than the petty salary that might be paid. In almost every village are one or more men or women so situated and so qualified as naturally to be utilized for secretary-treasurer when a national farm loan association is established in the community. The minister who is not too actively engaged or who may be retired, the local squire, some one who writes the insurance of the neighborhood, the editor of the village journal, some woman who has had experience as a teacher or bookkeeper

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or in a store, or other person of methodical habits, character and established reputation, will gladly accept such an opportunity to serve the public weal and aid in creating an institution that may be able later to afford some remuneration in cash as well as in honor, and in the satisfaction of being not weary in well doing.

The forms, records and instructions furnished to the secretary-treasurer by the federal land bank and farm loan board will simplify the duties of the office and make the work easy. It will be necessary only to follow out these directions, with the aid of the examiner from the federal land bank of which the local is a member.

The administration, including the duties of the secretary-treasurership, will be in charge of the directors elected by the shareholders and of the officers and committees chosen by the directors. The instructions they receive from the land bank's representative will help to make matters clear. "It is all easy enough when you know how!" The organizer and instructions from the land bank will furnish "the know how,"

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the local officers and committees easily may do the rest.

With such assistance in starting a national farm loan association along the right lines, the sound common sense of the member-borrowers may be trusted. They will choose their ablest and safest men and women as directors and officers. They will strive each to do his best to make the local a success, because so to do means to the borrower that he thereby will the sooner be out of debt.

DEPOSITS

Not a Bank. It will be seen that the principal function of a national farm loan association is to act as the local agency through which its members may borrow money from its federal land bank. Also through such local do its members pay their dues of interest and principal, at the intervals agreed upon.

That is to say, each national farm loan association supervises its own membership, verifies the desirability of their applications for loans, indorses their notes, receives from the federal land bank the money for each loan that is granted, pays the money over to the borrowing member, receives the borrower's payments of interest and principal thereon

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and forwards such funds to the land bank to be credited upon the borrower's obligation thereto.

The local does not do a banking business. It does not receive checking deposits, nor honor checks, nor make loans upon personal security or names.

Deposits for Buying Bonds. To assist its members and the people in its bailiwick to practice thrift and to accumulate savings with which to buy federal farm loan bonds, the local may receive from any person deposits of current funds in any amount.

For such deposits, the national farm loan association will issue its certificate, bearing interest for not longer than one year at not to exceed four per centum per annum after six days from date. Such certificate of deposit may not be withdrawn in cash, but is convertible only into farm loan bonds when presented at the federal land bank of the district in any multiple of \$25. The local transmits such deposits to the land bank, to be invested by it in the purchase of farm loan bonds issued by any federal land bank or in first mortgages as defined by the act.

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Object of This Privilege. The theory is that by this means people may be encouraged to deposit their petty savings in their own national farm loan association, so that when such savings reach \$25 or more, they may be used in paying for a federal farm loan bond of like amount.

Thus the petty savings of the people in each locality not only may be gathered together safely, but shall be invested in bonds of unimpeachable integrity, secured by first mortgages upon farm real estate.

In this way, also, these petty savings are thus kept right at home to fructify agriculture and promote the profits and pleasures of rural life. For the more such savings are thus invested, the more money will the federal land bank have to lend to members of the national farm loan association within the territory from which the savings emanate.

The power of small savings thus amalgamated, and the usefulness to their holders of the income they yield, can hardly be exaggerated. It should become the ambition of every individual, child or adult, to own at least one federal farm loan bond, if only in the sum of \$25. Once this small start in thrift has been made,

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the habit is formed and accumulations pile up with a rapidity that pleases the individual saver and promotes the "endless chain of prosperity" throughout the rural districts, which is not the least among the possible benefits of the act.

HOW LOANS ARE MADE

After a national farm loan association has received its charter and elected its officers, the application for a loan previously made by each charter member is referred to the committee on loans, composed of three members duly elected. No applicant may sit on the committee when passing upon his own loan, but his place may be filled temporarily by another member. The same procedure applies to all subsequent applications from would-be borrowers.

The Loan Committee then examines the land offered as security and submits a detailed report in writing signed by all three members, giving the appraisal of the land as determined by them, also such other information as is required by the federal farm loan board. "No loan shall be approved by the directors of the national farm loan association from any appli-

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cant unless the loan committee agrees upon a favorable report."

The written report of the loan committee, when approved by the local directors, is then submitted to the federal land bank, together with the application for the loan. "The directors of said land bank shall examine said written report when they pass upon the loan application which it accompanies, but they shall not be bound by said appraisal."

Federal Appraiser Investigates. "Before any mortgage loan is made by any federal land bank, or joint stock land bank, it shall refer the application and written report of the loan committee to one or more of the land bank appraisers appointed" by the federal farm loan board. This official shall investigate and make a written report to the land bank upon the real estate offered as security. The loan shall not be made unless this report is favorable.

Even then the directors of the federal land bank may grant or reject the loan requested, without being called upon to account for their action.

Powers of Loan Committee. Presumably the application for a loan must be approved

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in writing by all three members of the loan committee of the national farm loan association of which the applicant is a member. The law does not allow the applicant to appeal to the directors of the local, if the failure of one or more members of the committee to approve his application results in its rejection.

Penalties Imposed. However, for any member of the loan committee to allow personal feeling to bias his judgment for or against an application, might subject him to very serious penalties, as described in section 31 of the law. Fine and imprisonment also may be visited upon the applicant for any false statements or misrepresentations knowingly made in his application.

Furthermore, severe punishments are prescribed for any member of the loan committee or any director, official, appraiser or employee, or any association or land bank that accepts any commission, gratuity, emolument or bonus directly or indirectly, as a consideration for the granting of any loan. Indeed, the whole tenor of the act is to keep the system free from any or all forms of graft or corruption and to relieve either borrower or investor from all unnecessary costs.

Charge to Borrowers. It is legal, however, to charge applicants for loans, and borrowers, under rules of the federal farm loan board, "reasonable fees not exceeding the actual cost of appraisal and determination of title. Legal fees and recording charges imposed by law in the state where the land to be mortgaged is located may also be included in the preliminary costs of negotiating mortgage loans."

It is also provided that the borrower may pay such fees and charges, or he may arrange with the federal land bank making the loan to advance the same. In the latter case, however, the total amount of the loan granted shall not exceed fifty per cent of the appraised value of the land and twenty per cent of the insured value of the improvements thereon.

It is also permissible for the borrower to have deducted from the money loaned him the five per cent thereof which he is obliged to invest in shares of his local association.

Example of a Loan. For instance, suppose a man owns a snug little farm, the land of which is easily worth \$4,000, already mortgaged for \$1,500, and he wishes to raise about \$400 of additional capital, besides refunding

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his present mortgage into a long term obligation, and yet may not be able to spare the cash to pay the actual cost of appraisal and determination of title, or even for buying his shares.

Such a man would be entitled to a loan of \$2,000, upon becoming a member and buying shares at par of the amount of \$100, which is five per cent of the loan desired. Under the above circumstances, the \$100 for his shares and the actual cost of appraisal and determination of title, estimated at say \$5, would make a total of \$105 to be deducted from the loan, leaving \$395 after paying off the \$1,500.

His \$100 in shares should yield him interest, and the \$100 he paid therefor would be returned to him in full when his note was finally liquidated.

All other details regarding loans, including rates of interest and payment of principal, are plainly set out in Chapter Eleven.

The Local Supervision. Each member of a national farm loan association is also a borrower. Hence all the members are vitally concerned in maintaining its credit. They will be careful to admit to membership only farmers who may be depended upon to meet their dues.

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The ne'er-do-well must reform before his neighbors will grant him credit by admittance to the association which must indorse his mortgage. No excessive loans will be granted by an association whose indorsement thereof is backed by each of its members to the extent of double their holdings in its shares.

Nor will the loan committee be likely to approve the application for a loan if the use for which the money is desired does not appeal to their judgment as sound and wise.

The farmer who wishes to borrow for the purpose of buying the adjoining forty acres or farm, may be advised that it will be to his advantage to wait until he owns his present place free and clear before taking on more obligations. A similar suggestion may be made by the loan committee to the farmer whose family is inclined to be extravagant and urges him to borrow for a new house, when a bit of gumption, some work and a little taste outside and in may be all that are needed to make the old house "a thing of beauty and a joy forever."

The "steering," hints or advice which a borrower may receive from the loan committee, frequently will prove as helpful to him

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as the money itself. The committee's suggestions will be made quietly, confidentially, kindly, so that the applicant will both know and feel that they are made in his own interest.

All this supervision and oversight, in the granting of loans by the local association and in the subsequent use of the money, further insures the success of the system for the mutual benefit and protection of all borrowers and lenders (investors in farm loan bonds). For this reason, the bonds of federal land banks possess the peculiar and unique advantages over all other farm mortgage investments which are implied in such local control of credits and mutual responsibility for loans.

CHAPTER FIVE

FEDERAL LAND BANKS

WE have discussed the individual farmer and the individual farm upon which this system is based, also the national farm loan association of which the borrowing farmer must be a member in order to secure a loan from the federal land bank of which the association is a member.

The extreme simplicity of the foregoing and the efficiency with which it designs to bring out individual initiative supplemented by co-operative effort, cannot fail to have impressed the reader. We now come to the regional center through which the loans are made and the money furnished.

Federal Land Bank Districts. The federal farm loan board is to divide the continental United States, excluding Alaska, into 12 federal land bank districts, which may be designated by number. These districts "shall be apportioned with due regard to the farm loan needs of the country, but no such district shall contain a fractional part of any

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state." The law does not allow the number of districts to be increased, but it does provide that the districts may be readjusted from time to time.

Relative to State Laws. Each district may consist of the whole of one state or the whole of two or more states. It is not permissible for any district to include only a portion of one state.

By thus including whole states in a district, all the laws within said state relative to land titles and mortgage loans may be complied with readily by borrowers, by member associations and by the land bank.

Any state whose laws do not adequately secure land titles and mortgages thereon, may be denied the benefits of the system until it has enacted such laws, as described in section 30 of full text of the act in the appendix of this work.

Federal Land Banks. In each federal land bank district, the federal farm loan board must establish a federal land bank with its principal office located in such city within the district as the board designates. The name of the city must be included in the bank title. This land bank may establish branches within

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the land bank district, also agents, subject to the approval of the federal farm loan board, hereinafter called the board.

Temporary Organization. In order to get the system started, each federal land bank is to be managed temporarily by five directors appointed by the federal farm loan board, who must be residents of the district and give surety bond, and receive such compensation and allowance for necessary expenses as the board may fix.

These temporary directors have the power to choose from their number, by majority vote, president, vice-president, secretary and treasurer, and also have power to engage assistants and fix their compensation, subject to the board's approval.

Permanent Organization. When subscriptions to the stock of the federal land bank by national farm loan associations shall have reached the sum of \$100,000, the permanent organization shall consist of nine directors, each holding office for three years.

Six shall be known as local directors, to be chosen by vote of national farm loan associations, which therefore will have the control. Through these six directors, the borrowing

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farmers in the national farm loan associations may control indirectly.

The other three directors are known as district directors, to be appointed by the federal farm loan board, and to represent the public interest.

While the local directors have the controlling vote in the conduct of each federal land bank, it should be carefully noted that the federal farm loan board "shall designate one of the district directors to serve for three years, and to act as chairman of the board of directors." This does not mean that the federal farm loan board assumes to appoint the president or other executives of each land bank, but does mean that the board shall practice the closest possible supervision over each land bank.

Investors' Representation. The three district directors of each land bank, appointed by the federal farm loan board to represent the public interest, may be considered as specially representing the interest of investors in federal farm loan bonds.

These directors may be trusted to scrutinize most carefully all mortgages offered as security for such bonds, as well as other invest-

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ments and acts of the land bank. In this way the federal loan system is safeguarded quite as perfectly as is the federal reserve system, in which bankers and the public have come justly to have such implicit confidence.

Election of Directors. The act provides for the nomination of candidates for local directors, by member associations. The directors of each national farm loan association cast its vote and register the result with the farm loan commissioner. The candidates receiving the highest number of votes are elected as local directors. Each member association has one vote in land bank meetings for each share of its stock held by the member association.

All directors of the land bank must have been residents of the district for at least two years, "and at least one district director shall be experienced in practical farming and actually engaged at the time of his appointment in farming operations within the district."

It is specifically enjoined that, during his continuance in office, no director shall act for or be identified with any other institution, association or partnership, engaged in banking, or in the business of making or selling land

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mortgage loans, nor shall they accept any commission or perquisite for their duties.

Capital \$750,000. A subscribed capital of not less than \$750,000 must be obtained before any federal land bank may begin business. Such capital stock is divided into shares of \$5 each, the true co-operative unit.

Shares "may be subscribed for and held by any individual, firm or corporation, or by the government of any state or of the United States," in addition to being held by each national farm loan association which thus becomes a member of the land bank.

Any shares remaining unsubscribed "within 30 days after the opening" of the subscription books by the federal farm loan board shall be taken up by the United States and paid for out of the national treasury.

Thus it becomes possible for any individual, firm, corporation or state to acquire shares in any or all of the federal land banks, as well as to have the shares subscribed for by national farm loan associations within the respective territories of each bank. It will be observed, however, that a land bank may call up its shares and proceed to transact business even though no member associations have been

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organized previously. This is done in order to facilitate the establishment of the system.

Retirement of Shares. Ultimately the bank may retire at par all shares held by original subscribers other than member associations. When that time comes, the entire system will be the sole property of the borrowing farmers, who will enjoy all its earnings. Then the net profits will be apportioned ratably among the borrowers in dividends upon their shares in the national farm loan associations of which the borrowing farmers are members.

By this method, capital is encouraged to invest promptly in shares of federal land banks, as described more fully in Chapter Twelve. Yet after the system has become such an assured success that the borrowing farmers' associations supply all the capital needed for the land banks, then the shares held by outsiders may be retired on the payment of principal and accrued dividends.

Dividends. Stock owned by the government of the United States shall receive no dividends whatever, but all other stock in a land bank shall share in dividend distribution without preference.

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It is evident that the theory of the law is that while the government may invest temporarily in shares of the federal farm land bank in order to get it started, such advance shall be returned to the government, without interest, as rapidly as the shares are taken up by member associations or by other stock-holders. In this way the government has no interest in holding shares for the purpose of deriving profits therefrom.

No limit whatever is placed upon the dividends which may be paid by a federal land bank. A limit is placed upon the margin allowed for its expenses and profits, and certain reserves are required. But as long as it keeps within these lines, the land bank may pay dividends to any extent which in the judgment of its directors the earnings warrant.

This is another reason why the shares may be an extremely attractive investment to individuals, firms or corporations, even though the latter have no voting power therein.

Of course it is too early to forecast what dividends may be earned and paid. Certainly they should be not less than five per cent and may be quite considerably higher, at least

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after the formative period is past. Even upon the narrow margins and close restrictions under which some land banks have operated in Europe, they have been able to pay as high as 14 per cent annual dividends.

It would seem conservative for any investor in land bank shares to anticipate a liberal return for the whole period that his stock is outstanding, and until it has been called in and redeemed at par and accrued interest.

The safety of the investment also would seem to be assured beyond peradventure.

The amplitude of the margin for profit is self-evident. If the borrower pays \$6 annually for the use of \$100, and the bank pays \$5 interest upon its \$100 bond, there is a margin of one dollar for expenses and profits. The same may be true should borrowers pay \$5 and investors receive \$4 upon each \$100, or whatever the rate may be.

Now it will be observed that the federal land bank may issue bonds to 20 times the amount of its capital and surplus. Theoretically, therefore, the bank possibly may attain ultimately a gross income of some \$20 yearly upon each \$100 of its capital. Liberal allowances for contingencies, expenses and

reserves, should still leave a generous sum available for dividends.

The greater the efficiency and economy of the management, the larger will be the savings or net profits available for dividends. When the system is owned wholly by borrowers, as the plan contemplates, these benefits will accrue wholly to borrowers, being divided among them *pro rata* in precisely the proportions that they create such profits.

Retiring Outside Stock. When the holdings of member associations in the shares of any land bank amount to \$750,000, the bank "shall apply semi-annually to the payment and retirement of the shares of stock which were issued to represent the subscription to the original capital, 25 per centum of all sums thereafter subscribed to capital stock until all such original capital stock is retired at par."

In this way the shares held by any individual, firm or corporation, including also shares held by any state, eventually may be retired at par, after having received full dividends meanwhile. Ultimately, therefore, every share in the federal land bank, and every penny of profit in the system, may ac-

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crue to borrowers' benefit pro rata. Since the borrowers themselves create these profits, they are entitled to share in such profits.

Voting Power. "Each national farm loan association and the government of the United States shall be entitled to one vote for each share of stock held by it, in deciding all questions of voting of shareholders, and *no other shareholder shall be permitted to vote*" in a federal land bank.

The latter proviso is believed to be absolutely unique. It serves a threefold purpose:

1. While the shares held by any individual, firm or corporation have no voting power, the fact that shares held by the government are to receive no dividend would seem almost to insure a liberal dividend rate upon all the other shares, at least after the early and formative period. Possibly this dividend may be from five per cent to ten per cent.

2. Each member association having one vote for each share it holds in the federal land bank, thereby is encouraged to so increase the number of its own members as to increase its holdings and power in the land bank, and thus derive a correspondingly larger part of the profits of the system.

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3. This condition also is a perpetual inducement for farmers who have not joined the system to do so by applying for a charter for their own national farm loan association, or by joining same, if one has already been formed in their vicinity.

Following Precedent. It will be seen that eventually all the government stock may be taken over by the increasing membership of national farm loan associations. This follows the precedent of the federal reserve banks, whose shares are held entirely by the member banks, whether chartered under national or state law.

The only real difference is that, the farm loan system being entirely new, the government may temporarily advance the capital until such time as the shares are taken up by member associations.

Reserves. The land bank must carry as a cash reserve or in liquid interest-bearing securities, at least 25 per cent of its stock held by member associations, and not less than five per cent of such stock must be invested in United States bonds.

Every federal land bank is to carry to reserve account semi-annually 25 per centum

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of its net earnings until it has accumulated a reserve equal to one-fifth of its outstanding capital stock. If ever this reserve is impaired, it is to be fully restored before any dividends are paid. Any default for a longer period than two years in the receipt of interest or principal from any borrower, is to be charged to the reserve or deducted from it.

After the reserve reaches one-fifth of the capital, only five per centum of the net earnings shall be added thereto each year.

The reserves are to be invested as prescribed by the federal farm loan board.

After having created or earned the legal reserve required, the directors of a land bank may declare dividends to shareholders "of the whole or any part of the balance of its net earnings."

Powers of the Land Bank. Each federal land bank chartered shall have power to adopt and use a corporate seal, to have succession until dissolved under the provisions of the act or by congress, to make contracts, to have all the rights in the courts of natural persons, and to conduct its business.

When so designated, it shall be a depositary of public money, except receipts from cus-

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toms, and also may be employed as financial agent of the government. The bank must give satisfactory security for any public money deposited with it, and none of these funds may be invested in mortgage loans or in farm loan bonds.

It may issue, buy and sell farm loan bonds and retire same at or before maturity to an amount not exceeding 20 times its capital and surplus, and may invest in qualified first mortgages on farm lands within its district.

It may own real estate for a banking house, but cannot hold any other land except real estate taken for debt, and such must be disposed of within five years.

It may do business with any member bank of the federal reserve system, borrow money and pay interest thereon, also buy and sell United States bonds. It may accept deposits from member associations without interest, but has power to accept deposits payable upon demand from its own stockholders.

It may charge borrowers "reasonable fees not exceeding the actual cost of appraisal and determination of title," but is "prohibited under any form or pretense from demanding or receiving any other commission or charge not specifically authorized" in the law.

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Within these limitations the land bank has full power to transact its regular business but is prohibited from doing any other banking business.

Agents of Federal Land Banks. To make the largest possible use of existing credit institutions, section 15 of the act provides that the board may "authorize federal land banks to make loans on farm lands through agents approved by said board." Such agent must be a bank, trust company, mortgage company or saving institution, chartered by the state in which it has its principal office. Apparently national banks may not act as such agents.

Here again the margin for profit is self-evident. If the borrower pays \$6 annually for the use of \$100, and the agent pays \$5 interest upon its \$100 bond, there is a margin of one dollar for expenses and profits. Now the agent can lend 10 times the amount of its capital. Therefore it has a possible income of \$10 yearly upon each \$100 of its capital. Liberal allowances for expenses and reserves, should still leave a sum sufficient for attractive net returns.

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The agent negotiating the loan indorses it and becomes fully liable for it, in consideration for which the agent is allowed a commission of one-half of one per cent per annum upon the unpaid principal of the loan, "such commission to be deducted from dividends payable to the borrower on his stock in the federal land bank."

No agent may indorse such loans in excess of 10 times its capital and surplus. Nor can such an agent make further loans after the territory in which it operates is adequately served by national farm loan associations.

The farmer who wishes to borrow through an agent shall acquire through it shares at par in the land bank to the amount of \$5 for each \$100 he wishes to borrow, the same as though he was a member of a national farm loan association in his own vicinity. It will be seen that the borrower through an agency may be called upon to pay an *annual* commission of one-half of one per cent upon the amount due on his loan, whereas if he is a member of a national farm loan association, the commission he may be charged shall be only half as much, or not exceeding one-eighth of one per cent *semi-annually*.

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Appraisal. Upon receiving an application for a loan from a member association, or from an agent of the land bank, the land bank refers it to a land bank appraiser assigned to the district by the federal farm loan board. Unless this disinterested appraiser's report is favorable, the bank cannot grant the loan.

Government Deposits. In addition to the advances temporarily made from the federal treasury for taking up the otherwise unsubscribed for shares in federal land banks, section 32 authorizes government deposits. The Secretary of the Treasury may make deposits for the temporary use of any federal land bank, upon request of the federal farm loan board.

These deposits are to be secured by farm loan bonds or other satisfactory collateral and shall bear a rate of interest not to exceed the current rate charged for other government deposits. The law provides that all amounts thus deposited from the federal treasury shall not exceed an aggregate of \$6,000,000 at any one time. The Secretary of the Treasury may use his own discretion about making such deposits. This proviso has been criticized as

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favoritism and class legislation toward farmers. However, such critics ignore the fact that, until within recent years, it was the time-honored practice of the treasury to rush relief to Wall Street, in the form of liberal deposits, even without specific authority in law so to do. Government deposits in pet banks were a similar form of favoritism.

Those abuses are now done away with under the federal reserve act. The latter also bestows upon commercial banks and bankers far greater favors than even an unfriendly critic can show are accorded to farmers and investors by the new law.

The paramount importance of a prosperous agriculture, as the basis for enduring strength of people and of nation, justifies all reasonable precautions to insure the farmer's welfare.

CHAPTER SIX

FEDERAL FARM LOAN BOARD

THIS federal system by which farmers mobilize their landed credits through national farm associations, each of which is a member of its federal land bank, is under the general supervision and control of the federal farm loan board.

That body is analogous to the federal reserve board which, under the federal reserve act of December 23, 1913, has general control over all national banks and over the reserve system for commercial banking.

Instead of being independent and apart, this board works as the federal farm loan bureau within the treasury department at Washington.

How Composed. Hence the secretary of the treasury is ex-officio a member of the board, together with four others appointed by the President of the United States with the Senate's approval.

Not more than two of these appointees may be from one political party. All four shall

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be citizens of the United States and shall devote their entire time to the business of the federal farm loan board. Each of the four receives a salary of \$10,000 and traveling expenses, serving for two, four, six and eight years respectively. The President designates one as the farm loan commissioner, to be the active executive officer. No member of the board may be in any way affiliated with any banking or mortgage business during his continuance in office.

Other Officers. The board has authority to employ such attorneys, experts and other help as it requires in its own office. It also appoints for each land bank district a farm loan registrar, land bank appraisers and land bank examiners. Their functions are described in next chapter. Salaries and expenses of the board and of its appointees and employees, are payable from the federal treasury.

Large Powers. The federal farm loan board has wide powers of supervision and control over the whole system. It examines and reports on the condition of land banks, national farm loan associations and of farm land appraisals. It appoints the five tempo-

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rary directors who start each federal land bank, and when that institution is taken over by its permanent organization, three of its nine directors are appointed by the board.

The essential acts of land banks and of national farm loan associations are to accord with the rules and regulations of the federal farm loan board.

However, the board itself is not a corporation, as it has no capital stock, nor does it hold shares in any institution under the system. On the contrary, it is a wholly disinterested supervising authority.

The board even has power over state legislation, to the extent that it may refuse to grant loans in any state the laws of which do not, in the judgment of the board, fairly insure the rights of holders of first mortgages.

Issues All Charters. It alone may organize and charter federal land banks or charter national farm loan associations, also joint stock land banks.

It may review and even alter the rate of interest charged by federal land banks for loans.

It may accept or reject the request of any federal or joint stock land bank to make an

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issue of farm loan bonds. It prescribes the forms and terms of all such bonds.

It may even require federal land banks to pay forthwith their equitable portion of interest or principal which any other federal land bank may fail to pay.

The board may suspend or remove for cause any official appointed by it and in other respects has plenary authority, from which there is no appeal.

Co-operative Propaganda. It may also act as an advocate and demonstrator. For the law especially authorizes the federal farm loan board to conduct a campaign of publicity and demonstration to advertise the principles and advantages this system affords to both borrowers and investors. It may actually instruct farmers how to organize and conduct farm loan associations.

Congress still further recognizes the necessity of applying co-operative principles to agriculture, in that the act specially authorizes the federal farm loan board, "to disseminate in its discretion information for the further instruction of farmers regarding the methods and principles of co-operative credit and organization." A reasonable portion of

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the \$100,000 organization fund may be used for this purpose and the board "is instructed to lay before the Congress at each session its recommendations for further appropriations to carry out said objects."

Here is ample authority for conducting the propaganda in behalf of co-operative credit so much needed to enable both borrowers and lenders to work together to the largest mutual advantage.

Patriotic Duty and Usefulness. It is needless to suggest that this board use its powers conservatively, in an enterprising manner, and justly. Every member of it should be in the fullest sympathy with the purposes the system is designed to serve.

While considerate of the wants and needs of borrowers and of investors in farm loan bonds, the board will rigidly enforce the law without fear or favor, and equally with regard to federal land banks, joint stock land banks or national farm loan associations.

It will be seen that the system primarily rests upon the individual farmer. He unites with his fellows to promote the integrity of the mortgages that insure safety of the bonds, the sale of which to investors furnishes addi-

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tional funds to lend. While based on this popular and democratic principle, the local associations by their representatives and shares combine to form and control the federal land bank of their district.

The whole method enjoys the direction of the disinterested federal farm loan board. The idea is that by this plan each individual will be encouraged to help himself by associating with others similarly circumstanced. To this individual effort is added provision for efficient co-operation under expert supervision.

Immediately Effective. Admirable as the plan is, it is so new and farmers themselves are so slow to co-operate, that it may be years before the system is fully established along these democratic lines.

Slowness in approaching the ideal is no excuse for not striving toward it. Universally popular as the mutual savings bank system long has been in Massachusetts, for instance, a quarter of a century elapsed between the founding of the first savings bank and the establishment of enough others to make that system seem worth while. But for nearly a century it has been the bulwark of the eco-

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nomic thrift, industrial potency, social and civic power, and national influence of the old Bay State.

Even though it will take some time for farmers to realize to the full the ideals of the new method, by universally uniting in national farm loan associations in their respective communities, provision is made for putting the method into effect at once.

For the federal farm loan board has authority to make its advantages universal by authorizing existing banking institutions, chartered under state laws, to become agents for the land bank, and also by chartering joint stock land banks.

In these ways the federal farm loan board enjoys duties, responsibilities and powers of largest potentiality for the welfare of individuals and industries, states and nation. From the individual farmer and investor at the bottom, up through the federal farm loan board at the top, the system is worthy of every patriot's kindly interest and intelligent support.

CHAPTER SEVEN

FEDERAL FARM LOAN BONDS

THE creation of a new security of rare attractiveness and unimpeachable integrity is the means by which the federal farm loan system may achieve its largest success. Experience at home and abroad shows that it is entirely feasible to mobilize the land which feeds us as the basis for such bonds.

Their Sixfold Basis. Just a moment's thought will convince the reader that the degree to which federal farm loan bonds come to possess the implicit confidence of the investing public will measure the results of the system. That confidence must be a growth. It must be earned. That it will be achieved is certain, for the American people know a good thing when they see it, and are quick to patronize it. They will not be slow to realize that farm loan bonds have a sixfold basis.

1. The individual farmer: His character reserve—mind, will, soul; also his health reserve—physical, mental, spiritual.

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2. The farmer's land: The ground upon which his home is built, the soil from which comes the produce that feeds himself and his family and the rest of us.

3. The farmers' national farm loan association, which is a veritable co-operative reserve that renders efficient "the cohesive power of individual effort wisely associated for the common welfare."

4. These are amalgamated in the federal land bank, which issues and further guarantees the stability of the bonds

5. All twelve of these federal land banks are jointly and severally responsible for the bonds issued by each.

6. Regular installments upon principal constantly reduce the debt and increase the security of the mortgage.

Furthermore, the whole method indirectly is favored by the gold standard and the federal reserve system, which insure the stability of the currency and of finance.

Above all, it represents the newest and broadest efforts of statesmen regardless of party to express in an easily negotiable piece of paper or bond the underlying strength of American agriculture, upon which depends

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not only the republic itself but the very life of our people.

Two classes of farm loan bonds are contemplated under the act. Either type of bond is believed to be superior by far to existing forms of mortgage investment. Both are the outcome of the same federal supervision. The two classes may be briefly described:

1. Federal farm loan bonds are issued only by some one of the federal land banks established under this national law. This bond has back of it in their entirety all of the six-fold reserves enumerated above. Even where the mortgage loan is made to the borrower through an agency for the land bank, instead of through a member national farm loan association, similar safeguards are employed.
2. Farm loan bonds issued by joint stock land banks also are well protected, as is more fully narrated in Chapter Fifteen.

With all those safeguards, however, my own opinion is that federal farm loan bonds are preferable, for either borrowers or investors, to the securities of the joint stock banks.

The safeguards employed in the issuance of federal bonds are carried out to the

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last analysis. The system is such as to enforce the most rigid scrutiny and businesslike care in every detail leading up to the bond issue and thereafter in everything pertaining to the security.

The borrower must be of such a character as to commend himself to his fellow members of the association through which he gets his loan from the land bank. His loan may not exceed 50 per cent of the conservatively appraised value of his land, plus 20 per cent of the insured worth of the permanent improvements thereon. Besides this, the borrower puts up a reserve in cash of one-twentieth of the amount of his loan. His note is guaranteed by the indorsement of his national farm loan association, backed by the double stockholding liability of each of its members.

Against the obligation thus secured, the land bank may issue an equal amount of federal farm loan bonds. These are further secured by the land bank's capital and surplus and by the joint guarantee of all twelve land banks.

Careful Verification. Before either a federal or joint stock land bank may utter an issue of farm loan bonds, the security offered

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therefor must be rigidly investigated under the supervision of the federal farm loan board, entirely independent of the applying bank.

This investigation must show whether the loans were originally granted to farmers upon a fair appraisal made by the local loan committee and confirmed by a disinterested land bank appraiser appointed by the federal farm loan board.

The investigation must also show whether the guaranteeing association and the land bank have been periodically examined by the disinterested expert appointed for the purpose by the federal farm loan board.

The Registrar. If all this is found satisfactory, then the first farm mortgages, with their accompanying notes offered as collateral security for the bond issue, must be deposited with the registrar, who is to hold the same as trustee for the bondholders.

There is one registrar in each federal land bank district. He is appointed by the federal farm loan board, thus being wholly independent of the land bank itself.

This registrar not only holds all the collateral for the bonds, but he supervises the

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application thereto of all the payments of principal from borrowers.

All these payments constitute a trust fund, which in cash or suitable farm loan bonds, first mortgages or United States government bonds, "shall be forthwith deposited with the farm loan registrar as substituted collateral security in place of the sums paid on principal of the indorsed mortgages held by him in trust."

The registrar is indeed the trustee for the bondholders, and may be trusted accordingly.

Issue of Farm Loan Bonds. Only after the federal farm loan board is entirely satisfied as a result of such an investigation, does it grant authority to a federal land bank or joint stock land bank to make an issue of bonds. The care with which such issue is safeguarded appears from the statute, which will be further amplified by the regulations.

Form of Farm Loan Bonds. They shall be prepared in the United States treasury with the same care and under the same protection accorded to the printing of government bonds.

The denominations are \$25, \$50, \$100, \$500 and \$1,000. The bonds are issued in series,

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suitably numbered. They will run for not less than five years and for such maximum period as may be stated therein, not exceeding 40 years.

Any farm loan bond is subject to payment and retirement at the option of the issuing land bank at any time after five years from date of issue. Of course, the holder may demand and receive not less than their par value when called for redemption.

Rate of Interest. The law says that these bonds shall bear a rate of interest not to exceed five per centum per annum, with interest coupons attached payable semi-annually. Probably that rate will prevail on the bonds issued by any land bank, until the system is so well established that bonds bearing a lower rate than five per cent may be readily marketable at par.

Free of Tax. Except for United States government bonds, the farm loan bonds issued by any federal or joint stock land bank under this act are the only securities free from all taxation of every name and nature, as discussed so fully in the following chapter.

Legal Investment. The law also provides that either class of bonds shall be a

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lawful investment for all fiduciary and trust funds, and may be accepted as security for all public deposits. They may be bought and sold by any federal reserve bank or by any member bank of the federal reserve system.

A further convenience to investors is that the coupon or interest payment may be collected not only from the issuing bank but through any other bank.

These bonds are also to be recognized by the secretary of the treasury as security for government deposits in federal land banks. The trust funds for the land banks themselves also may be invested in farm loan bonds.

Payments upon Principal. The law strictly provides for the application of amortization and interest payments upon the mortgages so as at all times and in every transaction to protect the welfare of the owner of the mortgage or of the bond secured thereby.

The unique feature of the system is its requirement for the payment of small installments upon principal at regular periods until the last of the debt is liquidated. This amortization principle is made as plain as A B C in Chapter Ten.

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Further insurance against risk is afforded by the fact, that the mortgages securing each series of bonds are upon different farms in various localities throughout the district of the federal land bank which issues the bonds. Should one of the mortgagors experience a bad season or other misfortune, his troubles are not likely to be shared by the other mortgagors, all of whom may be at some distance from him, even in different counties or states.

For example, assume that federal land bank No. 9 is at Aberdeen, S. D., that its district includes the two Dakotas, Montana and Wyoming, and that it is about to issue Series No. 1 of its bonds in the sum of \$100,000. By that time it may own say 400 giltedge first mortgages, each of which complies in every respect with the law. These mortgages may range in size from \$500 to \$5000, aggregating some \$600,000. They are upon farms in all sections of the four states constituting the district.

Out of all these mortgages, suppose that 75, amounting to \$100,000, are chosen to secure the bond issue of \$100,000. It is hardly possible that any considerable number of the carefully selected and widely scattered farms

covered by these mortgages could all be seriously affected the same year by drouth, frost, flood or other adverse conditions. Some will be stock farms, some dairy farms, some grain farms, some truck farms, some devoted to general farming or to diversified agriculture. Even if the price of wheat should be low, it would directly affect only some of the mortgagors, but their debt is so small relative to their assets, that the grain-growing mortgagors would have no difficulty in meeting their dues of both interest and principal. The same is true in a general way of each of the other classes of farmers.

Collective Security. All of these 75 mortgages will be the collective collateral which secures the \$100,000 of bonds. As each farmer pays in his installment upon principal every six months, it will be set aside as a reserve fund to meet the bonds at maturity, or bonds will be bought in and retired in corresponding amount. If ultimately any one mortgagor fails to meet his principal or interest, then the default must be made up by the national farm loan association of which he is a member.

Should it fail to make good, then the federal land bank must supply the default. If it is

unable so to do, then the federal farm loan board may require each of the other 11 federal land banks to contribute their due proportion of the sum in default.

It seems impossible that any bondholder could ever lose a penny of interest or a dollar of principal. Yet each borrower's note and mortgage is *not* responsible for the debts of others. Each borrower's farm is liable only for the one mortgage upon it, and is free from any joint obligation or several liability. In a word, ample safety is secured, yet the farmer's liability is strictly limited to the debt upon his own farm, and to his own share in his own land bank or in his own national farm loan association.

CHAPTER EIGHT

TAX EXEMPTION

THE farmer's real estate cannot escape taxation. It cannot be hidden. The local assessors of values for taxation know about what the farm is worth. Usually the assessor also has a very complete idea of the personal property which the farmer owns, in the form of equipment and live stock.

Not only is all the farmer's property taxed, but in some states the method of taxation is such as to throw onto real estate an undue proportion of the whole amount of the public revenue which has to be raised by direct taxes.

Avoid Double Taxation. Since it is utterly impossible for farm real estate to escape taxation, and since it too often pays an undue proportion of taxation, it is essential to the farmer's welfare that he be not doubly taxed.

For this reason, the law provides that the borrower under the federal farm loan system, shall not be obliged to pay any tax whatever upon the note and mortgage which secures the

long-time loan upon his farm real estate. Not only are these exempted from taxation, but the money which the farmer has invested in shares of his national farm loan association, also all shares in the federal land bank, are exempt from taxation.

Total Exemption. Furthermore, the capital and reserve or surplus, and the income derived therefrom, in every federal land bank and every national farm loan association "shall be exempt from federal, state, municipal and local taxation, except taxes upon real estate." What real estate may be held by either is strictly limited and subject to the same taxation as all other real estate.

The law goes still further and declares: "First mortgages executed to federal land banks, or to joint stock land banks, and farm loan bonds issued under the provisions of this act, shall be deemed and held to be instrumentalities of the government of the United States, and as such, they and the income derived therefrom shall be exempt from federal, state, municipal and local taxation."

Sound in Principle. This total exemption from taxation of every dollar invested

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in the federal farm loan system, not only by federal land banks and national farm loan associations, but by individuals, firms, corporations or states, is based upon a sound economic principle.

The entire amount of such funds, with the exception of the small fraction required to be invested in United States government bonds (which already are tax free), is directly or indirectly invested in farm mortgages. Therefore, it should not be taxed, because the land pays the taxes.

The only exception to this rule is that shares in any joint stock land bank are subject to assessment and taxation the same as shares in national banks. This also is right and proper, because the joint stock institutions operate for profit on their capital, in contradistinction to the federal land banks which are co-operative and profit-sharing, rather than designed to earn large dividends for non-borrowing shareholders.

The laws of the respective states vary with respect to taxation of mortgages and similar instruments. Some states exempt them entirely. Other states impose less than the usual rate of tax. In still other states,

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an effort is made to tax mortgages on the same basis as other personal property

It is probably true that, in all such cases, the borrowing farmer pays a rate of interest sufficiently high to include the tax, and therefore he is the victim of double taxation.

Critics Answered. The tax exemption embodied in the act has been hotly criticized as another form of special privilege, either to the farmer or the bondholder. As a matter of fact, it is no favor to either of them, nor does it work any injustice to the public revenues.

For since the land itself pays all the taxes imposed upon it, the piece of paper which represents an interest in the land must in all fairness go scot-free of any taxation whatever. Especially does this principle apply to the federal farm loan system, which includes regulation of the rate that lenders or investors shall receive, as well as interest which borrowers shall pay.

The excuse for taxing mortgages in the hands of the holder under the system heretofore in vogue, has been this:

The holder may be a local Shylock, who exacts the last farthing in the highest possible rate of interest. Such a lender may spend

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no part of his income in improving his own property or in benefiting the community in any way. He is a leech upon the body politic. He receives, but never gives.

Under the old system, this Shylock obtained abnormally high rates from his victims, because they were not situated or organized to get loans at the rates to which their credit really entitled them.

“If we don’t tax this Shylock on his notes and mortgages, we won’t get anything out of him whatever,” says local public opinion. “If we do tax him, he won’t charge any higher interest, because borrowers cannot pay it. They are doubly taxed anyhow, by reason of the direct taxes they pay and through the high rate they pay the lender. Any tax we can collect from this Shylock therefore is so much clear gain and comes out of his pocket, not out of anybody else’s.”

Accrues to Borrower’s Benefit. Whatever merit or lack of merit that argument had, it is entirely out of place in the new system. For by the federal plan, doing away with the possibility of double taxation, and the removal of other restrictions, must all accrue to the benefit of the farm borrower. The more

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attractive the bond is made, the lower the rate of interest the investor will accept; and under this system, the rate to borrowers will be correspondingly reduced, as described in the next chapter.

Exemption Reiterated. Not only is tax exemption fully set out in section 26, but it is reiterated elsewhere in the law.

Section 21 prescribes that right in the face of every farm loan bond issued by a federal land bank shall be a certificate signed by the farm loan commissioner certifying to its legality and specifically stating "that it is not taxable by national, state, municipal or local authority."

Free of Inheritance Tax. This means that shares in federal land banks or in national farm loan associations, or the capital, reserves and surplus therein and the income derived therefrom, also all federal land bank and joint stock land bank farm loan bonds and the income derived therefrom, are absolutely free from each, every and all forms of taxation whatsoever during the life of the holder, and are also free even from death taxes.

In other words, any of these securities in the estate of a deceased person pass to the

TAX EXEMPTION

next owner without any deduction whatever for inheritance taxes, death duties or similar imposts.

We believe that federal farm loan bonds also will be exempt from the new estates tax or levy upon inheritances, which was imposed by Congress in 1916.

Like Government Bonds. In all these respects, the securities named are on a parity with United States Government bonds. With the exception of such bonds, the federal farm loan securities enumerated are the only securities in the United States that are utterly free from any and all forms of taxation to the holder, whether living or dead.

Such exemption, united to their other features, only needs to be made known to the American people, to create a market for federal farm loan bonds which eventually may compare in salability, price and rate with government bonds.

CHAPTER NINE

RATE OF INTEREST

NO loan on mortgage shall be made under this act at a rate of interest exceeding six per centum per annum," exclusive of the installments paid toward the reduction of the principal of the debt.

In this way the congress of the United States undertakes to limit the cost to the American farmer of long term money on first mortgage.

Elsewhere the law provides that farm loan bonds "shall bear a rate of interest not to exceed five per centum per annum."

It is also provided that in no case shall borrowers be obliged to pay more than one per cent in excess of the rate yielded by the last previous issue of bonds made by the land bank from which the farmer gets his loan.

One Point Margin. In effect, the law permits a margin of one point between what interest borrowers pay and lenders receive, to cover the expenses and profits of the institutions operating under the act.

RATE OF INTEREST

In the case of the co-operative institutions, such as federal land banks and national farm loan associations, whatever profits accrue over and above expenses and reserves, are divided pro rata among the borrowers who create those profits.

The same one point margin applies to joint stock land banks, but their profits accrue entirely to their shareholders and in no sense to their borrowers.

Market Will Govern. The law may prescribe rates of interest and may limit the margin for expenses and profits to not more than one point by percentages, or to one-fifth reckoned in actualities. But the actual cost of the money to the borrower will depend upon the price at which he or his land bank can sell his or its bonds.

No fiat of Congress can fix the rates at which money shall be lent. Acts of Congress may supervise rates, security, privileges and the like, but the law of supply and demand governs the cost of credit as it does of labor and commodities, in the last analysis.

Creating a Market. As time goes on, these bonds will become "seasoned," the

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public will appreciate them, they will be more and more in demand. Then they should sell not only more readily, but at better prices—that is, at par even though bearing a relatively low rate of interest.

This is merely another way of stating that the market for farm loan bonds has got to be created, developed, fostered and promoted until the merits of these securities have become so thoroughly established that, like government bonds, they almost will sell themselves.

How long this will take, cannot be foretold. The time required will depend in large measure upon the management of the system, the efficiency with which it is conducted and the energy with which the public are educated to recognize the merit of its securities.

Selling the Bonds. Only under abnormal conditions, will the farm loan bonds issued by any federal land bank bearing five per cent and free of all tax sell for less than par. This means that such a bond of a denomination of \$100 and yielding two and one-half per cent interest every six months should sell for not less than \$100.

But suppose that while the system is in its formative period, the bonds of some one federal land bank do not command par in any market.

A simple provision of the statute provides for this contingency, as follows:

"Funds transmitted to farm loan associations by federal land banks to be loaned to its members shall be in current funds, or farm loan bonds, at the option of the borrower."

The proviso cited would enable the borrower to accept bonds at par and then to sell them at a discount, or at a premium, as the case might be. Nothing in the act prevents any land bank from selling its bonds below par. Indeed, it specifically provides that in buying bonds, federal land banks may pay par or less.

In other words, the bonds will seek their level in the money market, as is treated more fully in Chapter Fourteen.

The borrower may reap the profit or get the benefit of any premium upon the original issue of bonds for which his mortgage is part of the collateral. On the other hand, he may stand the loss if at first the bonds can be sold only at a discount.

For after a land bank has loaned its capital, the only way it has of obtaining further cash to lend is through the sale of its bonds. To be sure, it may obtain a loan from the national treasury, but manifestly that will be but temporary and only for a relatively small amount. The bank cannot stand the loss should its bonds sell below par. Nothing in law or equity requires it to stand the loss. The bank must either restrict its operations until its bonds become so well established as to command at least par, or the borrower must be willing to stand the loss between the face of his loan and the price at which the bonds sell. Otherwise, the borrower, like the bank, must await a more favorable market for the bonds.

Local Demand for Bonds. This is all the more reason why everything possible should be done to create a home market for these securities in every local community, by encouraging thrift savings, to be invested in bonds issued by the federal land bank of that district. Threefold benefit will result from such thrift:

1. Young and old who never before saved, will get into the habit of saving and by the

receipt of the regular interest on their bonds, will be encouraged to continue in thrift. Once thrifty habits are formed, they grow by use. A surprising amount of money thus may be accumulated, even by people who heretofore have let their cash slip through their fingers.

2. By investing this money in federal farm loan bonds, it will be absolutely safe. It will yield a fair return regularly by the cashing of the interest coupons. When money is needed, the holder may be able to sell the bonds readily, perhaps for more than he paid for them. Indeed, the longer they are held, the more valuable they are likely to be in the market.

3. The money thus saved and invested in the bonds will remain right in the community, because it and perhaps more will be loaned by the land bank to the farmers within the territory from which such savings emanate. Thus is constituted what I have already called an endless chain of prosperity, ever at work to fructify each community.

4. Instead of sending cash away from one's home region for losing speculations, unwise investments or foolish expenditures,

this plan constantly adds to the cash and credit resources of each rural district that adopts it.

5. People will come to take pride in their landed ownership as represented by their holdings of farm loan bonds. It gives them a stake in the land, with all the social and civic influences that flow therefrom. The poorest may own a \$25 land bond, and even the children can save up a few pennies at a time for deposit in their national farm loan association toward the purchase of a bond. Special provision is made by the law to encourage petty deposits by offering four per cent interest thereon. The receipts for such deposits are convertible into land bank bonds. In this way, a bond may be bought even by those who can pay down only a few cents or a few dollars at a time.

To promote thrift in each home and in each locality, so as to create a home market for farm loan bonds, is essential to the largest development of the system and its finest usefulness to the nation.

This is recognized fully by most farmers who wish to patronize it as borrowers. They realize that the requirement of small install-

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ments upon principal every six months or year is also a stimulant to thrift. They know that they must "make good"—that this is not a scheme for advancing funds as a gift to those who won't or can't pay interest or principal.

The bond market will control the net cost to the borrower of his accommodation. Hence his interest in creating, through his own successful management and encouragement to local thrift, conditions that will be most favorable for the marketing of farm loan bonds.

My own judgment is that federal farm loan bonds will become a favorite investment for both small and large sums. I look forward to the time when here, as abroad, farm bonds may vie with government bonds in the market.

When that time arrives, farm bonds bearing three per cent may sell at par, farmers whose mortgages secure such bonds may pay not to exceed four per cent interest, and may enjoy generous profit-sharing dividends out of the one-point margin.

CHAPTER TEN

PAYING PRINCIPAL BY INSTALLMENTS

THE easiest way to pay a debt is a little at a time—the hardest way is to have to pay it all at once. If these small payments come due at regular intervals, say every six months, they can be met with the more certainty and convenience, because the farmer knows just when they are due and can plan accordingly to meet his dues.

Basis of the System. That is why the federal farm loan system is based upon the principle that the borrower must pay at least a small installment toward the reduction of his debt every six months or annually until the debt is discharged. Of course the borrower may pay up more rapidly, or in full, at his option, after not less than five years, but from the very start he *must* reduce his debt by periodic installments upon the principal, besides meeting his interest promptly and regularly.

To this familiar method has come to be applied the term amortization. That word,

PAYING PRINCIPAL BY INSTALLMENTS

because comparatively new to some people, has led to needless mental complexity.

Instead of saying, amortize the loan, let us say, make slightly increasing payments upon principal at regular intervals, and it all becomes as clear as daylight.

The borrower pays in a fixed sum as *dues*, sufficient to cover (1) his interest, (2) his share of the expenses and profits of administering the system, and (3) leave a balance which, applied upon the principal, so reduces the debt as to wipe it out in full by the date that his note comes due or matures.

In this easy, simple and regular way, the borrower constantly whittles down the principal of his indebtedness. This correspondingly increases the borrower's equity, and by the same ratio increases the lender's security. The law carefully provides for the application of such installments to the reduction of the principal.

These regular installments upon the principal are so small as seldom if ever to inconvenience the borrower in meeting them. Thus he pays his debt almost without feeling it, at the same time that the lender's security constantly improves. All savings in interest

and compound interest accrue to the borrower under this system of paying debts by periodic installments—not less often than every six months.

An Example. For instance, suppose I wish to borrow by this system \$1,000 for 33 years, secured by a first mortgage upon my farm real estate, all in accordance with the law and in compliance with the rules and regulations governing its administration. Assume that my agreement requires me to pay semi-annual dues of \$35, equal to \$70 per year upon each \$1,000 of my original debt.

Assume that I am charged interest at the rate of five per cent per annum upon the principal of my debt that remains unpaid at the end of each six months; this makes the interest thereon two and one-half per cent semi-annually. Assume further that I am charged one per cent per annum of the balance due upon the principal of my debt, to cover expenses and profits of the system; this equals one-half of one per cent every six months. Of course, the balance of my semi-annual dues is applied to the reduction of my principal.

Now, therefore, the dues I pay at the end

PAYING PRINCIPAL BY INSTALLMENTS

of the first six months from the date of my note will be divided in this fashion:

For simple interest at 5% per annum, equal to $2\frac{1}{2}\%$ for the 6 months....	\$25.00
For expenses and profits of the system, at the rate of 1% per annum, equal to one-half of 1% for the 6 months	5.00
 	<hr/>
Total of these two items,	\$30.00
Leaving to be applied upon my principal	5.00
 	<hr/>
Total semi-annual dues.....	\$35.00

Increasing Balance to Apply on Debt.

But observe that the principal of my debt is now reduced to \$995 at the end of the first six months, because the above mentioned \$5 has been applied thereto. Therefore, at the end of the *second* six months, the two and one-half per cent interest and one-half of one per cent for expenses and profits, making a total gross charge of three per cent for each six months, I have to pay only upon the said net balance due on my debt of \$995. This three per cent interest charge on said \$995 amounts to \$29.85.

Deducting this \$29.85 from my regular dues of \$35, leaves a balance of \$5.15 to be applied upon the unpaid principal of my debt. This still further reduces my debt from \$995

to \$989.85 at the beginning of the *third* semi-annual period.

Consequently, when I pay my dues of \$35 for the *third* time, that is, 18 months from the start, the three per cent is applied only to said net debt of \$989.85, and amounts to \$29.69. This leaves a balance of \$5.30 out of my dues of \$35. Applying this balance to my net debt of \$989.85 reduces it to \$984.54, as shown by Table A in the Appendix.

The Nub of It. So the process goes on. A *larger* proportion of my \$35 dues becomes available every six months for reducing the principal remaining unpaid upon my indebtedness, because in consequence, a constantly *diminishing* sum is required for interest and administration. This point is emphasized by consulting the Appendix for the table referred to.

Illustrated in More Detail. Debt-paying Table A, in the Appendix, illustrates just how this works as the years proceed. To show how my account will stand at the end of the 20th semi-annual period, or the 40th, or at end of my 65th six months and 65th payment of dues, the following summary is interesting:

PAYING PRINCIPAL BY INSTALLMENTS

Periods.....	20th	40th	65th
Gross charge for both interest and ad- ministration is.....	\$26.232	\$19.164	\$1.842
Balance of dues ap- plied on principal	\$8.768	15.836	33.158
<hr/>	<hr/>	<hr/>	<hr/>
Total of semi-an- nual dues	\$35.00	\$35.00	\$35.00
Leaving unpaid prin- cipal of.....	\$865.64	\$622.968	\$28.265

It will be seen that whereas my debt originally was \$1,000, by the end of ten years, my twentieth semi-annual dues will have paid all interest and expenses, and left a balance sufficient to reduce my net indebtedness to \$865.64. When I pay my regular dues of \$35 for the fortieth time, the debt will have been so reduced as to require only \$19.164 for interest, leaving \$15.836 to apply on the principal, which reduces the latter to \$622.968 at the end of twenty years. Now the saving of interest counts up much more rapidly, and of my 65th dues only \$1.842 is required to meet the interest on the petty balance of \$28.26 then remaining unpaid of the original debt, leaving \$33.158 to apply on its principal.

So for the sixty-sixth payment, or the last one for the term of thirty-three years, I will

only have to pay said remaining principal of \$28.26, plus three per cent for the gross charges against the same for the last six months. Hence, when my note matures, at the end of the 33 years, there won't be any principal becoming due, because the last of the debt will all have been paid off!

Better Yet. The above exhibit makes no allowance for my profit-sharing dividends, which may be enough to wipe out the remainder of my debt some years before its maturity, that is, long before the end of the thirty-three years. As a matter of fact, by practicing thrift I hope to be able not only to pay my regular dues of \$35 every six months, but also reduce the principal of my debt by additional payments. Then my farm and home will be free and clear of all encumbrance long before the expiry of the 33-year term.

Of course when the land bank can sell its bonds at four per cent interest, its largest gross charge against the borrower for simple interest and administration combined would be only five per cent, instead of the six per cent upon which the foregoing example is based. When that time comes, I may refund my six per cent obligation into one that costs

me only five per cent. This will reduce my semi-annual dues to \$30 a year, yet will be paying off the debt just as fast as before! Or if I keep on paying \$35 in dues, the \$5 additional thus saved every six months wipes out my debt so much the faster.

Likewise, should I be able to pay \$50 semi-annually, my debt would be paid off in twenty years, as shown by Table B in the Appendix. And that time will be shortened correspondingly if the three per cent charged me semi-annually for interest and administration is reduced to two or two and one-half per cent, also if I apply my dividends upon principal.

Too Good to Be True? The foregoing seems incredible to the borrower, but it is true. If all goes well, the saving may be even greater than in the above examples. Little payments on principal, added to little savings of interest, plus little profits, run into almost fabulous totals in a few years.

This apparent miracle accounts for the marvelously large accretions piled up by insurance companies and savings banks. Farmers now have a chance to employ the same principles so as to own their own farms and homes free

and clear of incumbrance by paying off their mortgage "almost without feeling it."

What It Means. By the old method so long in vogue, the cost of mortgage money to American farmers, including commissions and renewal charges, has averaged in recent years about eight and one-half per cent. This means that the average farmer has paid what is equal to \$85 yearly for the use of \$1,000. In thirty-three years these annual charges of \$85 amount to \$2805. That is for the simple interest only.

But *compound interest* must be reckoned with also. If the \$85 paid by the borrower each year to the lender is so invested by the lender as to earn five per cent annually, and this income is compounded from year to year at the same rate, such compound interest will aggregate \$3,595.36 for the thirty-two years for which the lender enjoys the compound interest. By the old method, this compound interest accrues to the lender, and is lost to the borrower. Add it to the \$2805 which the borrower paid in simple interest, and we get \$6,400.36 (see Table C, Appendix) as the total cost and loss to the borrower of \$1000 for the thirty-three years

by the old way, and he still owes the original \$1000 of principal.

By the new method, computing simple interest at five per cent, allowing one per cent for administrative expenses and profits, and disregarding the borrowers' share of the profits, his total payments are only \$35 every six months, or \$70 a year. In this case, therefore, the farmer pays in a total of \$70 each year, or \$2310 in thirty-three years, but by the end of that time *his debt is paid off in full*, besides all interest and expense thereon meanwhile! (See table A, Appendix.)

Old vs New. Therefore to pay interest and other charges upon a mortgage of \$1000, and to have the principal of the debt paid off in full at the end of thirty-three years, in the two examples given above—

Costs by the old method	\$7,400.36
Costs by new system....	2,310.00

Saving by new system.. \$5,090.36

Enormous Advantage to Borrowers. Total payments yearly *less* than by the old method not only meet interest, but by the new system gradually discharge the principal also. In these examples the actual saving

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by the new over the old way is some \$5000 on each \$1000 borrowed for thirty-three years at an average cost of \$85 annually.

The shorter the time for the loan, the less is the apparent saving, but the sooner the debt is paid. Thereafter all the interest accrues to the farmer, who now owns his place free and clear, and forever after enjoys the use of the funds he had been paying as semi-annual dues.

As a matter of fact, conservative allowance for the borrower's share of the new system's profits would make the comparison still more favorable to the amortization principle.

This reduction of debt by increasing payments upon principal, in effect enables the compound interest to accrue in borrower's favor, whereas heretofore compound interest has accrued to lenders. Yet the investor in farm loan bonds nets a fair return free of tax, and may realize upon his investment at almost any time or at maturity without loss.

The system is as mutually beneficial as it is almost magical in the benefits it confers upon borrowers.

CHAPTER ELEVEN

WHY BORROW BY THIS SYSTEM

A FEW of the many reasons why a thrifty farmer may wish to borrow under the federal farm loan plan, in preference to other methods now or heretofore in vogue, may be briefly summed up as follows:

1. Long Term. Your loan must run for not less than five years nor for longer than 40 years.

2. Easy Payments. Upon such long term loan, your semi-annual dues take care of the constantly *decreasing* amount required for interest and expenses, leaving a constantly *increasing* balance of your semi-annual payments to apply upon the principal, and thus constantly reduce your debt faster and faster until it is all paid off, your note canceled, mortgage discharged, and you then own your place free and clear.

3. Larger Payments. You have the privilege of reducing your loan still more rapidly by larger payments upon principal at any interest date.

4. Full Payment. Also you may, in the same manner, pay off the whole of the balance due on the principal, at any interest date after five years and receive a discharge in full.

5. Almost Pays Itself. If your semi-annual dues are no more than you or others have paid heretofore for interest alone, then the principal of your debt is paying itself without your feeling it at all. On the other hand, if the dues you pay every six months are a trifle more than the current rate of interest alone, the extra amount is so small that you may hardly feel it, and you will be liquidating your indebtedness with no inconvenience, besides paying the interest meanwhile.

6. Amount. You can borrow not less than \$100 nor more than \$10,000 by this system.

7. Security. The loan must not exceed fifty per cent of the fair appraised value of your farm real estate, plus not to exceed twenty per cent of the insured value of the permanent improvements thereon. Additional security to the extent of five per cent of your loan must be given in the form of your investment at par in shares of your national

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farm loan association or federal land bank. If your real estate becomes more valuable later on, you can call for a reappraisal and get a larger loan.

8. Interest. In no case can the rate of interest exceed six per cent, including your pro rata part of the expenses and profits of the system. Your interest will be as much lower as can be without loss to the federal land bank which makes the loan. The law provides that the bank may charge its borrowers interest at a rate not exceeding one per cent above the rate it pays on its bonds.

9. Refunding or Lower Rates. Should money become cheaper in future, you may be able then to refund at a lower rate the balance of your principal then unpaid, or may take out a new and larger loan at the lower rate. This may be done by paying off the old mortgage with bonds, as explained in Chapter Fourteen, and by then taking out a new mortgage at the then lower current rate. You can *never* be charged a *higher* rate than that fixed originally in your note and mortgage to the bank. Therefore the chances as to rate are all in your favor as a borrower.

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10. Expenses. No commission is charged you or any other borrower for a loan. You simply pay the bare expenses to your local association or to the land bank, of making your appraisal, and if your application is granted, you furnish satisfactory title and insurance, along with the note and mortgage you executed. Thereafter you pay only your pro rata part of the cost of administration, which the law provides must not exceed one per cent upon the unpaid balance of your loan, and this one per cent is included within the interest rate.

You pay your dues to your local, and it may charge one-eighth of one per cent thereof for the trouble and expense of receiving same and forwarding it to the land bank. You may not really pay this charge, as it is deducted from the interest you draw on your shares in your national farm loan association.

11. Profit Sharing. You invest \$5 in one share of the national farm loan association of which you are a member and through which you obtain your loan, for each \$100 that you borrow from it. Upon each share you receive whatever dividends are earned after the association, and the land bank of which it is a

WHY BORROW BY THIS SYSTEM

member, have set aside for reserves the amount required by law. Extra earnings may be made by the extra savings due to careful management, and you may receive your pro rata share thereof in the form of extra dividends on your shares.

12. Convenience. You do business with the national farm loan association right in your own vicinity, if there is one; if not, with an agent for your federal land bank. If either office is not convenient to you, it may be possible for you to pay your dues to any bank in your vicinity with which you may be doing business, or you may mail same to your association or federal land bank.

13. Refund on Shares. When mortgage is paid off in full, you will surrender your shares and receive in return the full amount you paid therefor originally, together with all accrued dividends to the credit thereof at the date of closing up the whole transaction. Meanwhile you will have received all interest and profit-sharing dividends earned or apportioned to said stock.

14. Still more rapid payments may be applied to the reduction of the principal of

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your debt, should you direct that all the interest and profit-sharing returns upon your stock be applied to the reduction of your principal, instead of being paid you in cash. Thus you may hasten by some years the date at which your obligation will be entirely discharged.

15. Limited Liability. Your note and the mortgage upon your farm which secures it, is the total liability assumed by your real estate. Neither your note nor mortgage nor real estate is in any way jointly or severally liable for the debts of the others. What you are liable for is this: The amount you paid in for shares, plus as much more; but there is mighty little likelihood of this strictly limited liability ever costing you anything, and if it does, the loss at most should be only trifling, and would be offset several times over by the many other advantages the system will confer upon you.

16. Farmers Control. Insurance of success is furthered by the fact that only you and other borrowers can be members of any national farm loan association. Thus farmers will control it, and will insist upon its making only good loans. Through it borrowers have

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a controlling interest in the federal land bank, all under the constant supervision of the federal farm loan board with its unlimited national authority.

17. Further Safeguards. Bona fide farmers only, "actually engaged in the cultivation of the farm mortgaged," may obtain loans. Such farmers will take pride in paying their dues promptly and in encouraging thrift so as to create a better market for farm loan bonds. In this way the borrowers will be able to insure the stability of the system in such manner as gradually to reduce the rate of interest. Thus borrowers may earn further benefits without loss to lenders or investors.

18 Purposes of Loans. You may not borrow money by this system for extravagant or foolish purposes. For privileges conferred upon him by the act, the borrower reciprocates by using the money in ways that should permanently increase the value or productiveness of the farm, and enable the borrower more readily to meet his dues of interest and principal. The law on this point should be carefully read—section 12, paragraph four. The borrower may comply with these require-

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ments, without inconvenience and with decided benefit to himself.

19. Free of Tax. No taxation whatever upon your note or mortgage or shares, nor upon the capital and surplus of your national farm loan association or federal land bank. This is a matter of justice to you as a borrower, or as an investor, which is not the least of the many advantages of the system.

20. Transferable. A mortgage may pass with the title of the premises to a new owner, should he become such by purchase, trade, gift, bequest or otherwise; that is to say, the debt does not necessarily become due and payable should the property pass into other hands, but may be continued in accordance with the terms of the original contract, if agreeable to the land bank which holds the loan. This may make a mortgaged farm all the more salable, because of the smaller amount of cash the buyer will have to pay upon the purchase price.

21. Co-operative. When in full vogue and effect, borrowing farmers will hold all the stock in the federal land bank through their share holdings in the national farm loan asso-

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ciations of which they are members. You have one vote for each share in such local association, but not exceeding twenty votes in all, and the association has one vote for each of the shares it holds in its land bank. As these are held in the same proportion that farmers own shares in the locals, the system becomes entirely co-operative and profit sharing.

22. **It is a national system**, under national law, supervised by national authority. This implies both strict integrity and adequate ability in administering the affairs of local associations and also of district land banks.

23. **Implicit confidence** therefore may be bestowed upon the method by borrowers, investors and the whole public

Another unique feature of importance to the thrifty borrower: While you must pay your dues regularly, you not only have the privilege of paying larger installments upon the principal and of paying it off in full at any interest date after five years, but such larger installments you may pay *either* in cash or in federal farm loan *bonds* at *par*.

By watching the market, you may have a chance to pick up some of the bonds at a trifle

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under par. Such opportunities are most likely to occur during a period of business depression, when funds for commercial purposes may be relatively dear. At such times some holders of farm loan bonds may be forced by their necessities to sell their bonds, because these bonds then may be more salable and upon relatively better terms than any other securities which the holder may possess. You will watch out for such chances, for should you ever be able to buy bonds at say 98 or 97, you can turn them in to the bank at par, 100, to apply upon the principal of your loan. Thus you will profit by the full difference between 100 and what the bonds cost you below that figure.

You also will notice that, because of the work and expense involved in making your loan, it must run for not less than five years. At the earliest, you cannot get your mortgage discharged until five years after its date, even though you may be able to pay it off in full before the five years have expired. However, you can pay it up in part or in full at any interest date before the five years, as well as thereafter, by tendering farm loan bonds to the bank as described in the foregoing paragraph.

CHAPTER TWELVE

WHY BUY SHARES IN FEDERAL LAND BANK

INDIVIDUALS of any age or either sex, firms and corporations, should be quick to buy shares in any or all of the federal land banks and hold the same until redeemed at par and accrued interest, for these reasons:

- 1. Non-Taxable.** The shares are exempt from any and every form of taxation—local, municipal, state or national. They are free even from inheritance tax, death duties or succession taxes, as well as from all income taxes.
- 2. Without Liability.** The law does not provide for any liability upon the shareholder in excess of the par value of the shares owned by said holder.
- 3. Dividends.** Each share in the federal land bank is entitled to unlimited dividends over and above the legal reserve and suspense account required by law.
- 4. Retirement.** If certain conditions are attained, shares held by individuals, firms,

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corporations or states must be retired at par, apparently with accrued interest.

5. The Margin of Profit. Under prudent and economic management, once a federal land bank becomes well established, its earnings may be sufficient gradually to build up the required surplus and leave a liberal balance available for generous dividends.

6. Insurance against loss is provided for in the following manner:

(a) By a margin of over 100 per cent on its loans—each loan is secured by ground worth twice the face of the loan, plus permanent improvements insured for five times that part of any loan which they represent.

(b) By a cash reserve of 5 per cent from each borrower.

(c) By the double liability upon the shares of each borrower, plus the indorsement of each loan by a national farm loan association.

(d) By compulsory reduction of the amount of each loan semi-annually by payments on the principal.

(e) By having only long term obligations (bonds) and these amply secured.

WHY BUY SHARES IN FEDERAL LAND BANK

(f) By having all twelve federal land banks jointly and severally liable upon each bond.

(g) By being under national law and federal supervision, with all the advantages implied and enforced by the federal farm loan act.

7. Expense Fund. The economical cost of administering the affairs of the bank is covered by an additional charge to the borrower of not exceeding one per cent of his unpaid note, the pro rata part of this charge being included in the semi-annual dues which each borrower pays. Such dues also include his interest and installment upon principal.

8. Supervision. The law provides for the most rigid supervision of each loan, of each national farm loan association, and of each federal land bank. This is done by means of appraisers, examiners and registrars appointed by the federal farm loan board, which authority is over, above and in supervisory control of the whole system. Both classes of institutions must report to the federal farm loan board, which has the broadest powers of audit, examination and direction.

9. State Laws. With respect to the security of creditors, land titles, mortgage foreclosure, etc., the laws of any state must be such as to meet the approval of the federal farm loan board before a land bank can make any loans within the state. This would seem to insure absolutely against any possible looseness in state laws or possible insecurity to creditors thereunder.

10. State Ownership. A unique feature of the new system is that any commonwealth may own shares in a federal land bank, holding the same in the name of the commonwealth. Any progressive state may well make such an investment of its surplus or other funds, not only because of the safety and earning power of these shares, but also as showing the state's desire to co-operate in the largest usefulness of the federal land bank within whose district the state may be included.

11. Marketability. When these non-taxable shares show reasonable earnings, they should be readily salable at steady prices. Especially is this true because of the ever present demand from borrowers for bonds

WHY BUY SHARES IN FEDERAL LAND BANK

with which to pay their indebtedness in lieu of cash.

12. Transferable. The whole or any part of the number of shares represented by any certificate of stock in the federal land bank may be sold or transferred at will and in the usual manner, when held by others than member associations.

13. A Noble Purpose. Aside from the foregoing business reasons why this investment may be satisfactory from the financial viewpoint, as a shareholder in one or more federal land banks, you will become one of the founders of the federal farm loan system.

Thus you will promote the praiseworthy purpose of this institution. Thus you will co-operate in establishing what eventually may do as much for American agriculture as similar effort in Germany, France and other countries have accomplished during the past 25 to 100 years or longer.

14. Proven Worth. For the merit of this method has been proven abroad during 150 years, and as now applied by American methods to American conditions may reach the zenith of its perfection and usefulness in

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the United States. Already such perfection was long since accomplished by the co-operative building and loan associations, through which possibly a million wage earners and salaried people are acquiring homes of their own or have them already paid for. Similar beneficial results for farmers are the aims of the federal land bank system.

CHAPTER THIRTEEN

WHY INVEST IN FEDERAL FARM LOAN BONDS

THE reader who may wish to save and put by any sum from \$1 and \$25 upward, equally with the individual or institution that has thousands or millions to invest, cannot fail to have been favorably impressed by a perusal of the previous chapters. An exposition of the new system affords the following among many reasons why the federal farm loan bonds issued by a federal land bank should appeal to investors:

1. **Safety.** The federal farm loan act of the United States, the supervision by national authority, the by-laws of the banks, and the efforts of the management, all are directed toward making as near as possible to absolute safety each and every bond uttered by the new system.

2. **Security.** Each bond and each series of bonds have back of them the following security:

(a) An undivided interest in all of the

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first mortgage notes which are held as collateral for each series of bonds

(b) These mortgages being upon different farms in scattered localities throughout a large district, thus still further minimize the risk.

(c) Each mortgaged farm is worth not less than double the amount of the loan. Therefore, the security for each loan is at least 200 per cent at the start. The security increases steadily each year, as the borrower reduces the principal of his debt.

(d) The buildings upon the mortgaged premises must be amply insured against fire at all times.

(e) As mortgages are accepted only upon farms occupied and cultivated by their owners, in contradistinction to agricultural land owned by landlords or speculators, the security represented by the personal character of the borrower is of the finest type

(f) Each mortgage loan is further secured by a cash reserve against it of five per cent, invested by the borrower in the shares of his national farm loan association, and by the latter in stock of the federal land bank of which it is a member. This insures a *special*

WHY INVEST IN FEDERAL FARM LOAN BONDS

reserve of five per cent against the bonds in each series, which reserve is in cash, or invested in government bonds or in farm mortgages or federal farm loan bonds.

(g) Each mortgage is further secured by the indorsement of the national farm loan association of which the borrower is a member. And all the members thereof are jointly and severally liable for all its obligations to the amount of double their holdings of its stock.

(h) Each bond is also secured by the paid up cash capital stock of the federal land bank by which it is issued (part of which is invested in government bonds), also by the surplus of that institution, not to mention its suspense account. These three items together must at all times constitute an *extra* reserve equal to five per cent of the par value of the bonds outstanding.

(i) Still further, and in addition to said *special* and *extra* cash reserves, together aggregating 10 per cent of the original loan, all twelve federal land banks are jointly and severally responsible for the principal and interest of each and all the bonds uttered by any or all of such banks. And these institutions have such rights and privileges and

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are so related to the treasury of the United States as almost to preclude the possibility of loss.

(j) And finally, all the foregoing security is constantly increasing because each borrower's debt is constantly being reduced. Thus the equity back of each mortgage steadily grows.

3. Non-taxable. The law provides that all farm loan bonds under the federal system shall be exempt from any and every form of taxation whatsoever. With the exception of United States government bonds, it is believed that federal farm loan bonds constitute the only security which, in the last analysis, is absolutely exempt from any form of direct or indirect taxation to the holder in life or death. And this is for the reason that the taxes are paid from the land itself, by which the bonds are secured.

4. Income. Some of the bonds first to be issued may bear 5% interest, payable annually or semi-annually. Being free of tax, this is equivalent to a return of $6\frac{1}{2}\%$ or 7%, or \$65 to \$70 per \$1,000 annually, according as you have to pay $1\frac{1}{2}\%$ or 2% taxes upon taxable investments. Naturally the rate on

WHY INVEST IN FEDERAL FARM LOAN BONDS

subsequent issues may be lower, but still will furnish one of the most attractive sources of income for conservative investors.

5. Redemption. Federal farm loan bonds may be called in and retired at any time after five years from date of issue, but may run for the maximum period for which they are written. When called for redemption, the holder shall receive their full par value, of course with accrued interest. Should an investor be so fortunate as to have obtained the bonds below par, the difference will constitute a profit in addition to the tax free income he has enjoyed meanwhile.

6. Reinvestment. Doubtless the investor will have the opportunity to reinvest in bonds of later series the money he receives when his holdings are called for redemption. In effect redemption may, at the option of the holder, consist merely of the exchange of his bonds for those of another series or later issue. This will insure the objects desired by holders for permanent investment.

7. Legal Investment. Farm loan bonds issued in accordance with the act "shall be a lawful investment for all fiduciary and trust

funds, and may be accepted as security for all public deposits." No language could be more sweeping as to the universality of these securities for the investment of any private, corporate or public funds, or as collateral.

8. Marketability. With such an extraordinarily broad market provided by law, in addition to the demand from individuals, firms, corporations, societies, towns, cities, counties or states, these bonds always should be readily marketable. Effort should be made to have them bought and sold through every existing agency for such purposes, as well as through many new channels.

9. A Unique Feature. The marketability of federal farm bonds is still further vested in the fact that borrowers may pay their debt either in cash or in bonds at par. Hence the shrewd borrower will be quick to improve every chance to buy bonds below par. This proviso exists with respect to no other security.

10. Stability. These bonds should remain at or around par, not only because of their safety, security, non-taxability, and the legal investment feature, but also because there may be a constant market for them

WHY INVEST IN FEDERAL FARM LOAN BONDS

to supply the demands of borrowers who wish to reduce the amount of their indebtedness or pay it off in full.

Summary. Therefore, the bond of a federal land bank, or of a joint stock land bank, may be depended upon to pay its interest regularly, to pay its principal at redemption or maturity, and should be readily convertible at any time into cash without loss and possibly at a profit.

Both principal and income are *net* and free from every form of taxation.

The apparent certainty of such satisfactory results is borne out, in the last analysis, by this great truth:

That whatever happens, the land remains, the people must be fed, and therefore federal farm loan bonds constitute the ultimate security for sums invested therein.

CHAPTER FOURTEEN

BUYING AND SELLING FEDERAL FARM LOAN BONDS

THE intelligent reader up to this point should be thoroughly convinced of the soundness in theory and correctness in practice of the whole federal farm loan system, provided it enjoys adequate management under competent supervision.

The vital problem now is to provide such facilities for the purchase and sale of federal farm loan bonds that they may always enjoy a quick, ready and available market at relatively steady prices.

How to Do It. This may be facilitated by the federal farm loan board, and by the federal land banks, in various ways, among them the following:

1. Federal farm loan bonds to be listed upon every stock exchange and in every open market throughout the United States. Eventually this security may be listed upon principal foreign markets.

2. Make known their permanent advantages to all investors, small as well as large,

BUYING & SELLING FEDERAL FARM LOAN BONDS

through a judicious system of persistent publicity, based upon the most conservative management and the results of actual experiment.

3. Provide for the purchase and sale of or trading in the bonds through every banking institution, brokerage house and dealer in securities throughout every nook and corner of the United States.

4. **The Investor.** While cultivating the permanent investor, encourage the use of the bonds for short term investment by institutions, corporations or individuals who may wish temporarily to invest funds that shall yield a fair return, until such time as the securities are sold to enable the money to be used for other purposes. Create, develop and increase the home demand for these bonds in each rural community, town and city in the respective federal land bank districts, as outlined in Chapter Nine.

5. Protect the market or quotations, in times of emergency, by liberal purchase of the bonds through some or all of the federal land banks themselves.

6. **The Borrowers.** Wisely direct all the borrowing interests represented in the system to the necessity of extending the

FEDERAL FARM LOAN SYSTEM

demand for the bonds. Show borrowers the considerable financial profit which will accrue to borrowers as a result of such increased demand.

7. Educate bankers and the other money-lenders to fully appreciate the value of these bonds as collateral, thus adding to their attractiveness to a large class of investors.

8. Enable the holder to collect his interest coupons at par without any bother or expense whatever by simply depositing the coupons in his local bank.

9. **Reinvestment.** When bonds are called in for retirement, offer the holder the privilege of reinvesting in a new issue of bonds. This policy may do much to overcome whatever objections any permanent investor may have to the possibility that his bonds may be retired at a time when he would like to hold them longer.

10. **The One Universal Investment.** In addition to these and other means of making federal farm loan bonds the most convenient to buy, sell and trade in of any security whatever, authority should be granted by Congress for these securities to be bought and

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sold, coupons cashed and bonds redeemed, at any and all postoffices.

Make federal farm loan bonds the one universal, popular and constantly available investment for every man, woman and child, institution, corporation, town, city, county or state, public or private fund, in any sum from a petty \$25 up to millions.

CHAPTER FIFTEEN

JOINT STOCK LAND BANKS

THE foregoing pages have been devoted to an exposition of the farm loan system as conducted through federal land banks, their agents or their member national farm loan associations.

Large as may be the development of the method through those institutions, however, the vastness of the farm loan business and the number of individuals, firms or corporations already engaged directly or indirectly in lending money to farmers or in selling farm mortages or the paper evidence thereof, are such as to be taken full cognizance of by the federal farm loan act.

Joint Stock Land Banks. The law provides that such a bank may be formed by any number of natural persons, not less than ten, who shall have the same voting privileges as holders of shares in national banks. Stockholders are liable to the banks' creditors for double the amount of their shares, the same as is the case with national banks.

JOINT STOCK LAND BANKS

Each joint stock land bank must obtain its charter from the federal farm loan board, and shall be in all respects under the supervision of the board. Its shares are taxable the same as shares in national banks, but its bonds, also its capital and surplus, enjoy the same exemption from tax that is granted to federal land banks. It shall not receive deposits or transact any banking or other business not expressly authorized by the statute.

Capital Required. A joint stock land bank may be chartered with a subscribed capital of at least \$250,000, one half of which must be paid up in cash, and the balance subject to call, but it cannot issue any bonds until its capital is entirely paid up. No limit is imposed upon the extent to which a joint stock land bank may increase its capital.

The government shall not purchase or subscribe for any capital stock of any joint stock land bank.

Bond Issues. The mortgages and notes owned by any joint stock land bank which it wishes to use as collateral for a bond issue, must be deposited with the registrar appointed by the federal farm loan board for the federal

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land bank district in which is situated the principal office of the joint stock land bank.

Having deposited its securities with the federal registrar, the issue of bonds against them by a joint stock land bank may be made only with the approval of the federal board. Such bonds must be so engraved as not to be mistaken for securities issued by federal land banks.

The amount of bonds it may issue is limited to fifteen times the amount of the capital and surplus of any joint stock land bank, whereas a twenty-fold limit is allowed to federal land banks.

Lends Money. Joint stock land banks may make loans at an interest rate of not more than six per centum per annum, or at not to exceed one per centum more than the rate paid on the same bank's last previous issue of bonds, provided this does not lift the rate above 6%.

"Joint stock land banks shall in no case demand or receive, under any form or pretense, any commission or charge not specifically authorized in this act."

"No loan made by any joint stock land bank shall exceed 50 per centum of the value

of the land mortgaged, and 20 per centum of the value of the permanent insured improvements thereon, said value to be ascertained by appraisal as provided" elsewhere in the act.

Subject to the limitations enumerated, the rates of interest charged by a joint stock land bank are not subject to any control whatever. It may make loans on first mortgages on farm lands within the state in which it has its principal office, or within some one state contiguous thereto. It can lend only upon farm property, improved or unimproved. There is no limitation as to the purposes for which such loans may be made, nor their amount. Neither is there any limitation as to the ownership of the mortgaged premises with respect to whether the owner and borrower is engaged in the cultivation thereof, or is or is not occupying the same otherwise, or is or is not merely holding the same for speculation, investment or as landlord for rental purposes.

Advantages of Federal Charter. Within the prescribed lines, therefore, joint stock land banks may prosecute their business in their own way, subject only to powers over them

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conferred by the law upon the federal farm loan board.

It is possible that many existing brokerage firms and land mortgage institutions may find it advisable to obtain federal charters under the act, because of the advantages it confers upon them and the higher standing the statute and its enforcement will give to the securities of properly conducted joint stock land banks.

In return for these advantages, such institutions will be brought under federal control and supervision. At present in some states they are subject to no public authority whatever, but in other states are supervised by public authority. To have their business all under one uniform national system may prove as usefully advantageous to mortgage brokers and institutions as to railroads. Much the same arguments apply to both propositions.

There is a large field of usefulness for these joint stock institutions among farmers who for various reasons may not care to join with the federal system, or who may not be able to comply with all its requirements. Especially will the joint stock bank be able to cater to farmers and landowners who wish loans in excess of \$10,000.

JOINT STOCK LAND BANKS

The authority granted to joint stock land banks has been criticized as likely to lead to unbridled speculation in farm lands on the part of reckless promoters or similar interests. However, if the law is as rigidly enforced upon these banks as upon federal land banks, possibly this fear may prove to be exaggerated.

Competition. The manifest superiority of the securities uttered by federal land banks over the bonds of joint stock land banks is so great as to foster rivalry between them in serving both borrowers and investors.

To encourage legitimate competition in such better service to agriculture, is not the least beneficent purpose of the federal farm loan act.

CHAPTER SIXTEEN

ANSWERS TO QUESTIONS

DURING the preparation of this book, many questions have been raised by farmers, bankers, investors and others, which are answered in this chapter. The author will be pleased to reply (through his periodicals) to any other question that may occur to interested readers.

Any farmer anywhere in the continental United States is entitled to borrow, from the federal land bank of his district, any sum from \$100 to \$10,000, upon the security of a first mortgage on the farm he owns and cultivates. No loans may exceed half the appraised value of the land plus one-fifth the insured value of the permanent improvements thereon. Loan must be for not less than five years nor more than 40 years.

Interest shall not exceed 6%, no commissions, no bonus, no rake-off, no graft. You can refund at a lower rate when money is cheaper.

A small payment must be made toward reduction of principal, each year or semi-

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annually. This correspondingly reduces the sum required for interest, and by so much hastens the time when the last of the principal is paid off. You may pay larger installments on the whole at any interest date if you wish, but you can't be forced to do so. No renewals required—note runs till debt is paid, as above stated.

The bank sells bonds secured by such mortgages, to get more money to lend. All shares, bonds, capital and surplus of the system are free of tax, because the land pays the taxes. Shares are \$5 each, bonds \$25, \$50, \$100, \$500 or \$1000. Both should be the choicest of safe investments, readily salable at any time.

Your liability as a borrower is strictly limited to the amount of your own loan, plus possibly 10% thereof. Your land secures your own debt, and is not liable for anybody else's obligation.

The best way to get a loan is to start a little branch of the land bank right in your own school district, township or county. It is called a national farm loan association. It is owned and controlled by the farm borrowers, under direction of their federal land bank.

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The whole system is supervised by the federal farm loan board at Washington. It may be some months before the 12 land banks are ready for business.

C. E. T. should be able to borrow up to \$10,000 upon his Illinois farm worth \$30,000. Not more than \$10,000 is made in one loan under the new law. Hence our Iowa subscriber whose farm of 2300 acres is worth over \$300,000 will have to look elsewhere for a loan of \$40,000. One object of the new act is to help the small farmers to own their own farms worth from say \$1000 to \$20,000 or so. Application for a loan must be made to the national farm loan association, which does business in the territory in which the farm is located; if not already organized, one may be started easily.

I have a good farm in another state upon which I would borrow \$1000 for 10 years at 6%. Need the money as soon as possible—H. K.

First, you should get the farmers in the township in which your farm is located to join in starting their national farm loan association, by using the outfit we will mail you on request. These farmers may admit you to membership, or they may feel that the

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benefits of this system should be confined to bona fide farmers who are living on the land offered as security. Each local may admit new members by two-thirds vote. The land bank of which the local is a member, may accept or reject applications for a loan made by the local. It should be easy for any bona fide farmer who owns and cultivates the mortgaged premises to get a loan. But it may not be so easy for the non-resident or for the speculator.

The loan may be made for not less than five nor more than 40 years. Wise farmers will make long term notes so that the debt cannot be foreclosed as long as the small dues are kept up, while on the other hand they can pay off as fast as they like. Interest probably will not exceed 6%, including allowance for expenses and profits, and the borrower gets his share of the profits in the form of dividends on his stock in his local.

I have an option on several square miles of good farming land in a new region. Will buy it and open it to settlement if you can get me a loan through this new system.—H. L. M.

Doubt if a loan would be granted to you. The actual farmer who settles upon such land might get a loan through the local branch

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there of the federal land bank. The new law is to help the man who owns and cultivates his own farm, rather than the speculator or promoter. The latter may or may not be able to secure accommodation from a joint stock land bank insurance company or other lender.

I have a chance to buy a 160-acre claim from a settler who is discouraged. I see that the new plan restricts loans to 50% of the value. Who fixes the value? How can I get this land if I cannot raise quite half the amount? My family want to live on, improve and make a good home as well as a good farm.—K. C. S., Oklahoma.

Just such real farmers and bona fide settlers as you the new system aims to help. The ten or more farmers who incorporate their local land bank, which the law calls a national farm loan association, choose a committee on appraisal. It fixes the value of the land and improvements, subject to review by federal land bank. No loan may exceed 50% of appraised value of land, plus 20% of insured value of improvements thereon. If your local favors your application, it will indorse your note, and the money will be furnished by the land bank. You must raise half the price of the land so that by borrowing the other half you can give the land bank

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a clear title. Probably the seller will be glad to take a second mortgage for as much of the purchase price as you cannot raise. In this way you can have some money left for working capital, which is always desirable. The law provides numerous safeguards and strict penalties to insure fair appraisals. No inflation or fraud permitted. It will be easy to start your local—with the outfit obtainable from the federal farm loan board at Washington, D.C.

D. S. C. owns and operates a farm in New Hampshire, but lives part of the time in Massachusetts. He would apply to the association which does business in the territory in which his farm is located.

T. B. Z. is working land upon a government irrigation project and still owes the government for a large part of its value. When he is able to reduce his debt to only half the appraised value of the land plus "20% of the value of the permanent insured improvements thereon," then he should be able to borrow the balance through the federal plan, use the money to pay off the government and thus own his place clear of all incumbrance except the one first mortgage to the land bank. Whether this will be advantageous,

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depends upon the cost and terms of the two methods.

J. R. R. The money you pay for shares in the national farm loan association right in your own vicinity, it invests in the shares of the federal land bank of which it is a member.

R. C. owns a farm of 104 acres free of all incumbrance. He should have no trouble in borrowing up to half its appraised value, plus 20% of the insured value of the permanent improvements thereon, through the new system as soon as it is started in your vicinity.

A. N. V. You can borrow only on your real estate security, not on any of your personality, by this system.

My farm is easily worth \$10,000 and the mortgage on it is only \$4,000, but I am a stranger here, the neighbors are so prosperous that they may not want to borrow, so how can I negotiate a long-time mortgage?—B. D. L., N. J.

It is for just such cases that the new system is designed. Talk the matter over with your neighbors. You may find them more willing than you think, or your township may be included within the territory of a national farm loan association situated a little further off. In the course of a few years, these locals should be sufficiently numerous to accommo-

ANSWERS TO QUESTIONS

date all. Or you may borrow from an agent of the land bank.

I bought a 240-acre farm on contract at \$123 per acre, amounting to \$29,520, upon which I still owe \$21,000.—C. E. T.

You should be able to borrow up to one-half of the officially appraised value of your farm land, plus not to exceed 20% of the insured value of the permanent improvements thereon, total amount of loan not to exceed \$10,000.

H. M. J. Your local farmers form their own borrowing club under the new system. It is called a national farm loan association. This club elects its appraisers, who swear to do their duty faithfully and under heavy penalty. This committee appraises the value of each applicant's land. Then if the association approves the application, it indorses the papers and sends them to the federal land bank. The latter further investigates values through its own disinterested appraisers. If it finds the local appraisal too high, it may reduce or reject the application. "In making such appraisal, the value of the land for agricultural purposes shall be the basis of appraisal, and the earning power of said land shall be a principal factor." The fact that a single

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season may be too wet or too dry for successful crop production may or may not affect the value of the land, in the judgment of either the local or the district appraisers.

J. A. N. By taking out a loan for a long time through the national loan association in your vicinity, your property should be more salable because of the greater convenience with which the buyer can meet the small installments due under the new system. The farmer can pay his mortgage as much faster as he likes. As to land that you hold on speculation in another state, you may find it difficult to have such a loan approved by the local association which covers that territory.

C. E. B. should have no difficulty in getting a long time loan of \$5,000 on his orchard farm worth \$16,000, by organizing or applying to the national farm loan association which covers the territory within which his farm is located.

I own 2300 acres of well-improved farms worth about \$350,000 on which I want to borrow \$40,000 at as low rates as possible.
—P. H. W., Wright county, Iowa.

The utmost that can be loaned on any one farm is \$10,000 by the federal plan, which is

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designed in the interest of farmers having not to exceed \$20,000 or \$30,000 worth of real estate and from that down. Bigger farmers, as in this case, should be able to command their own terms from lenders, insurance companies or from the new joint stock land banks authorized under the federal act.

J. S. C. If not yet ready to buy your farm, but wish to be sure of getting a loan on it when you do acquire title, do this: Invest your savings from week to week or month to month, in federal farm loan bonds. Sell them to get cash to pay down on the farm, or perhaps the seller of the farm will accept the bonds as cash. Anyone who thus accumulates half enough to pay for a farm, should have no trouble in borrowing the balance from the national farm loan association or federal land bank for the district in which the farm is located.

A "local" of the federal land bank is called a national farm loan association. It must start with not less than 10 members, each a farmer who wishes a loan on his farm located within its territory. The local's directors thereafter admit new members by two-thirds

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vote. They might or might not admit a non-resident who owned a farm within the local's bailiwick.

To be an officer of a national farm loan association is one of the highest honors and greatest evidence of confidence that farmers in any locality can bestow. Such officers gladly serve without pay, as their duties are not onerous, especially after the local gets a-going. The secretary-treasurer is the only one who should be paid, as he or she has the details to attend to. The pay may be mighty little to start with, but more when the business gets bigger. The whole system is based upon local co-operation voluntarily entered into and necessarily persisted in.

My farm of 30 acres with new house, new barn and other buildings would sell readily at \$4,000. I have a nice village property worth \$2,000. Upon both properties there is an incumbrance of \$2000 at 7%.—J. J. S., Clay County, Ill.

By joining with 10 others to form a national farm loan association in your own vicinity you probably could borrow up to 50% of the value of the farm land and 20% of the value of the insured improvements thereon, at not to exceed 6% interest. This would leave your village place free of incumbrance. If

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you continue to pay in a total of 7%, the extra 1% plus your share of the profits will go to steadily reducing your debt.

Nothing to prevent any member of a "local" from dealing in real estate or doing other business. Only, he must be a bona fide farmer in order to get in. Real estate dealers, promoters and boomers cannot "put anything over" on the system, because local borrowing farmers control, land bank appraiser examines registrar investigates, federal board supervises, and severe penalties punish wrongdoing.

The foregoing answer many questions of the same general character that come from different people in various regions. The careful reader will find in the previous chapters of this work answers to almost every other question that may occur to him. So soon as the federal farm loan board is organized and ready for business, letters addressed to it at Washington, D.C., then will bring any further information desired. The board, or the federal land bank for your district so soon as it is organized, probably will send a demonstrator to meet your farmers, and explain every point that may be raised at such a

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meeting. However, it is not necessary to wait for an organizer, as the official instructions will make that process simple and easy for any intelligent person or body of farmers to go ahead and complete their own organization.

CONCLUSION. The principles which are to govern the successful carrying out of the federal farm loan system were epitomized some years ago in the author's *Co-operative Finance*, as follows:

“Land banking must be a growth, a development, an evolution. It must win its way into public confidence by the perfection of its methods, the soundness of its securities, the wisdom of its administration. All these essentials, separately and combined, must prove their worth by experience in order to come to their fullest fruition.

“Capital is timid, investors are conservative, vested interests are thoroughly intrenched, existing institutions and methods are the result of experience. In creating a better method for mobilizing land credits, we would best go slow but sure, even to the extent of resisting the American characteristic of wanting ‘results’ quickly.”

SUCCESS OF THE NEW SYSTEM

The first edition of this book appeared upon the enactment of the Federal Farm Loan Act July 17, 1916. The twelve federal land banks began business the following year. Up to 31 December 1918 nearly 163,000 farmers had applied for loans exceeding \$425,000,000. About one-third of these applications were rejected, and some were withdrawn. At that date loans had been actually made to 67,882 farmers for a total of \$157,020,751. Both the figures may double within a year.

The system has proven its efficacy. Experience has revealed its weak points, which will be strengthened if congress modifies the law as desired by the federal farm loan board. The system as operated to reduce interest rates upon farm mortgages generally, has made it possible for farmers to obtain money during war stringency when it was almost impossible to borrow money upon centrally located business property in cities,

however high the rate of commission, and has benefited farmers in many ways. The system has thoroughly justified itself.

Owing to war conditions, the rate of interest was advanced from 5% to 5½% about December 8, 1917. The amortization tables at both rates appear on pages 229-232 inclusive.

APPENDIX THE LAW IN FULL

AN ACT—To provide capital for agricultural development, to create a standard form of investment based upon farm mortgage, to equalize rates of ~~interest~~ upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be “The Federal Farm Loan Act.” Its administration shall be under the direction and control of the Federal Farm Loan Board hereinafter created.

DEFINITIONS

SEC. 2. That wherever the term “first mortgage” is used in this Act it shall be held to include such classes of first liens on farm lands, as shall be approved by the Federal Farm Loan Board, and the credit instruments secured thereby. The term “farm loan bonds” shall be held to include all bonds secured by collateral deposited with a farm loan registrar under the terms of this Act; they shall be distinguished by the addition of the words “Federal,” or “joint stock,” as the case may be.

FEDERAL FARM LOAN BOARD

SEC. 3. That there shall be established at the seat of government in the Department of the Treasury a bureau

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charged with the execution of this Act and of all Acts amendatory thereof, to be known as the Federal Farm Loan Bureau, under the general supervision of a Federal Farm Loan Board.

Said Federal Farm Loan Board shall consist of five members, including the Secretary of the Treasury, who shall be a member and chairman *ex-officio*, and four members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the four members to be appointed by the President, not more than two shall be appointed from one political party, and all four of said members shall be citizens of the United States and shall devote their entire time to the business of the Federal Farm Loan Board; they shall receive an annual salary of \$10,000, payable monthly, together with actual necessary traveling expenses.

One of the members to be appointed by the President shall be designated by him to serve for two years, one for four years, one for six years, and one for eight years, and thereafter each member so appointed shall serve for a term of eight years, unless sooner removed for cause by the President. One of the members shall be designated by the President as the Farm Loan Commissioner, who shall be the active executive officer of said board. Each member of the Federal Farm Loan Board shall within fifteen days after notice of his appointment take and subscribe to the oath of office.

The first meeting of the Federal Farm Loan Board shall be held in Washington as soon as may be after the passage of this Act, at a date and place to be fixed by the Secretary of the Treasury.

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No member of the Federal Farm Loan Board shall, during his continuance in office, be an officer or director of any other institution, association, or partnership engaged in banking, or in the business of making land mortgage loans or selling land mortgages. Before entering upon his duties as a member of the Federal Farm Loan Board each member shall certify under oath to the President that he is eligible under this section.

The President shall have the power, by and with the advice and consent of the Senate, to fill any vacancy occurring in the membership of the Federal Farm Loan Board; if such vacancy shall be filled during the recess of the Senate a commission shall be granted which shall expire at the end of the next session.

The Federal Farm Loan Board shall appoint a farm loan registrar in each land bank district to receive applications for issues of farm loan bonds and to perform such other services as are prescribed by this Act. It shall also appoint one or more land bank appraisers for each land bank district and as many land bank examiners as it shall deem necessary. Farm loan registrars, land bank appraisers, and land bank examiners appointed under this section shall be public officials and shall, during their continuance in office, have no connection with or interest in any other institution, association, or partnership engaged in banking or in the business of making land mortgage loans or selling land mortgages: *Provided*, That this limitation shall not apply to persons employed by the board temporarily to do special work.

The salaries and expenses of the Federal Farm Loan Board, and of farm loan registrars and examiners author-

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ized under this section, shall be paid by the United States. Land bank appraisers shall receive such compensation as the Federal Farm Loan Board shall fix, and shall be paid by the Federal land banks and the joint stock land banks which they serve, in such proportion and in such manner as the Federal Farm Loan Board shall order.

The Federal Farm Loan Board shall be authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers, and other employees as it may deem necessary to conduct the business of said board. All salaries and fees authorized in this section and not otherwise provided for, shall be fixed in advance by said board and shall be paid in the same manner as the salaries of the Federal Farm Loan Board. All such attorneys, experts, assistants, clerks, laborers, and other employees, and all registrars, examiners, and appraisers shall be appointed without regard to the provisions of the Act of January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto, or any rule or regulation made in pursuance thereof: *Provided*, That nothing herein shall prevent the President from placing said employees in the classified service.

Every Federal land bank shall semi-annually submit to the Federal Farm Loan Board a schedule showing the salaries or rates of compensation paid to its officers and employees.

The Federal Farm Loan Board shall annually make a full report of its operations to the Speaker of the House of Representatives, who shall cause the same to be printed for the information of the Congress.

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The Federal Farm Loan Board shall from time to time require examinations and reports of condition of all land banks established under the provisions of this Act, and shall publish consolidated statements of the results thereof. It shall cause to be made appraisals of farm lands as provided by this Act, and shall prepare and publish amortization tables which shall be used by national farm loan associations and land banks organized under this act.

The Federal Farm Loan Board shall prescribe a form for the statement of condition of national farm loan associations and land banks under its supervision, which shall be filled out quarterly by each such association or bank and transmitted to said board.

It shall be the duty of the Federal Farm Loan Board to prepare from time to time bulletins setting forth the principal features of this Act and through the Department of Agriculture or otherwise to distribute the same, particularly to the press, to agricultural journals, and to farmers' organizations; to prepare and distribute in the same manner circulars setting forth the principles and advantages of amortized farm loans and the protection afforded debtors under this Act, instructing farmers how to organize and conduct farm loan associations, and advising investors of the merits and advantages of farm loan bonds; and to disseminate in its discretion information for the further instruction of farmers regarding the methods and principles of co-operative credit and organization. Said board is hereby authorized to use a reasonable portion of the organization fund provided in section thirty-three of this Act for the objects specified in this paragraph, and is instructed to lay before the Congress at each session its

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recommendations for further appropriations to carry out said objects.

FEDERAL LAND BANKS

SEC. 4. That as soon as practicable the Federal Farm Loan Board shall divide the continental United States, excluding Alaska, into twelve districts, which shall be known as Federal land bank districts, and may be designated by number. Said districts shall be apportioned with due regard to the farm loan needs of the country, but no such district shall contain a fractional part of any State. The boundaries thereof may be readjusted from time to time in the discretion of said board.

The Federal Farm Loan Board shall establish in each Federal land bank district a Federal land bank, with its principal office located in such city within the district as said board shall designate. Each Federal land bank shall include in its title the name of the city in which it is located. Subject to the approval of the Federal Farm Loan Board, any Federal land bank may establish branches within the land bank district.

Each Federal land bank shall be temporarily managed by five directors appointed by the Federal Farm Loan Board. Said directors shall be citizens of the United States and residents of the district. They shall each give a surety bond, the premium on which shall be paid from the funds of the bank. They shall receive such compensation as the Federal Farm Loan Board shall fix. They shall choose from their number, by majority vote, a president, a vice-president, a secretary and a treasurer. They are further authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers, and other em-

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ployees as they may deem necessary, and to fix their compensation, subject to the approval of the Federal Farm Loan Board.

Said temporary directors shall, under their hands, forthwith make an organization certificate, which shall specifically state:

First. The name assumed by such bank.

Second. The district within which its operations are to be carried on, and the particular city in which its principal office is to be located.

Third. The amount of capital stock and the number of shares into which the same is to be divided: *Provided*, That every Federal land bank organized under this Act shall by its articles of association permit an increase of its capital stock from time to time for the purpose of providing for the issue of shares to national farm loan associations and stockholders who may secure loans through agents of Federal land banks in accordance with the provisions of this Act.

Fourth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this Act. The organization certificate shall be acknowledged before a judge or clerk of some court of record or notary public, and shall be, together with the acknowledgment thereof, authenticated by the seal of such court or notary, transmitted to the Farm Loan Commissioner, who shall record and carefully preserve the same in his office, where it shall be at all times open to public inspection.

The Federal Farm Loan Board is authorized to direct such changes in or additions to any such organization cer-

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tificate, not inconsistent with this Act, as it may deem necessary or expedient.

Upon duly making and filing such organization certificate the bank shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

First. To adopt and use a corporate seal.

Second. To have succession until it is dissolved by Act of Congress or under the provisions of this Act.

Third. To make contracts.

Fourth. To sue and be sued, complain, interplead, and defend, in any court of law or equity, as fully as natural persons.

Fifth. To elect or appoint directors, and by its board of directors to elect a president and a vice-president, appoint a secretary and a treasurer and other officers and employees, define their duties, require bonds of them, and fix the penalty thereof; by action of its board of directors dismiss such officers and employees, or any of them, at pleasure and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, subject to the supervision and regulation of the Federal Farm Loan Board, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected, its officers elected or appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise, by its board of directors or duly authorized officers or agents, subject to law, all such inci-

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dental powers as shall be necessary to carry on the business herein described.

After the subscriptions to stock in any Federal land bank by national farm loan associations, hereinafter authorized, shall have reached the sum of \$100,000, the officers and directors of said land bank shall be chosen as herein provided and shall, upon becoming duly qualified, take over the management of said land bank from the temporary officers selected under this section.

The board of directors of every Federal land bank shall be selected as hereinafter specified and shall consist of nine members, each holding office for three years. Six of said directors shall be known as local directors, and shall be chosen by and be representative of national farm loan associations; and the remaining three directors shall be known as district directors, and shall be appointed by the Federal Farm Loan Board and represent the public interest.

At least two months before each election the Farm Loan Commissioner shall notify each national farm loan association in writing that such election is to be held, giving the number of directors to be elected for its district, and requesting each association to nominate one candidate for each director to be elected. Within ten days of the receipt of such notice each association shall forward its nominations to said Farm Loan Commissioner. Said commissioner shall prepare a list of candidates for local directors consisting of the twenty persons securing the highest number of votes from national farm loan associations making such nominations.

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At least one month before said election said Farm Loan Commissioner shall mail to each national farm loan association the list of candidates. The directors of each national farm loan association shall cast the vote of said association for as many candidates on said list as there are vacancies to be filled, and shall forward said vote to the Farm Loan Commissioner within ten days after said list of candidates is received by them. The candidates receiving the highest number of votes shall be elected as local directors. In case of a tie the Farm Loan Commissioner shall determine the choice.

The Federal Farm Loan Board shall designate one of the district directors to serve for three years and to act as chairman of the board of directors. It shall designate one of said directors to serve for a term of two years and one to serve for a term of one year. After the first appointments each district director shall be appointed for a term of three years.

At the first regular meeting of the board of directors of each Federal land bank it shall be the duty of the local directors to designate two of the local directors whose term of office shall expire in one year from the date of such meeting, two whose term of office shall expire in two years from said date, and two whose term of office shall expire in three years from said date. Thereafter every local director of a Federal land bank chosen as hereinbefore provided shall hold office for a term of three years. Vacancies that may occur in the board of directors shall be filled for the unexpired term in the manner provided for the original selection of such directors.

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Directors of Federal land banks shall have been for at least two years residents of the district for which they are appointed or elected, and at least one district director shall be experienced in practical farming and actually engaged at the time of his appointment in farming operations within the district. No director of a Federal land bank shall, during his continuance in office, act as an officer, director, or employee of any other institution, association, or partnership engaged in banking or in the business of making or selling land mortgage loans.

Directors of Federal land banks shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, to be paid by the respective Federal land banks. Any compensation that may be provided by boards of directors of Federal land banks for directors, officers, or employees shall be subject to the approval of the Federal Farm Loan Board.

CAPITAL STOCK OF FEDERAL LAND BANKS

SEC. 5. That every Federal land bank shall have, before beginning business, a subscribed capital of not less than \$750,000. The Federal Farm Loan Board is authorized to prescribe the times and conditions of the payment of subscriptions to capital stock, to reject any subscription in its discretion, and to require subscribers to furnish adequate security for the payment thereof.

The capital stock of each Federal land bank shall be divided into shares of \$5 each, and may be subscribed for and held by any individual, firm, or corporation, or by the Government of any State or of the United States.

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Stock held by national farm loan associations shall not be transferred or hypothecated, and the certificates therefor shall so state.

Stock owned by the Government or the United States in Federal land banks shall receive no dividends, but all other stock shall share in dividend distributions without preference. Each national farm loan association and the Government of the United States shall be entitled to one vote for each share of stock held by it in deciding all questions at meetings of shareholders, and no other shareholder shall be permitted to vote. Stock owned by the United States shall be voted by the Farm Loan Commissioner, as directed by the Federal Farm Loan Board.

It shall be the duty of the Federal Farm Loan Board, as soon as practicable after the passage of this Act, to open books of subscription for the capital stock of a Federal land bank in each Federal land bank district. If within thirty days after the opening of said books any part of the minimum capitalization of \$750,000 herein prescribed for Federal land banks shall remain unsubscribed, it shall be the duty of the Secretary of the Treasury to subscribe the balance thereof on behalf of the United States, said subscription to be subject to call in whole or in part by the board of directors of said land bank upon thirty days' notice with the approval of the Federal Farm Loan Board; and the Secretary of the Treasury is hereby authorized and directed to take out shares corresponding to the unsubscribed balance as called, and to pay for the same out of any moneys in the Treasury not otherwise appropriated. Thereafter no stock shall be issued except as hereinafter provided.

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After the subscriptions to capital stock by national farm loan associations shall amount to \$750,000 in any Federal land bank, said bank shall apply semi-annually to the payment and retirement of the shares of stock which were issued to represent the subscriptions to the original capital twenty-five per centum of all sums thereafter subscribed to capital stock until all such original capital stock is retired at par.

At least twenty-five per centum of that part of the capital of any Federal land bank for which stock is outstanding in the name of national farm loan associations shall be held in quick assets, and may consist of cash in the vaults of said land bank, or in deposits in member banks of the Federal reserve system, or in readily marketable securities which are approved under rules and regulations of the Federal Farm Loan Board: *Provided*, That not less than five per centum of such capital shall be invested in United States Government bonds.

GOVERNMENT DEPOSITARIES

SEC. 6. That all Federal land banks and joint stock land banks organized under this Act, when designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and they may also be employed as financial agents of the Government; and they shall perform all such reasonable duties, as depositaries of public money and financial agents of the Government, as may be required of them. And the Secretary of the Treasury shall require of the Federal land banks and joint stock land banks thus designated satisfactory security, by the deposit of United States

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bonds or otherwise, for the safekeeping and prompt payment of the public money deposited with them, and for the faithful performance of their duties as financial agents of the Government. No Government funds deposited under the provisions of this section shall be invested in mortgage loans or farm loan bonds.

NATIONAL FARM LOAN ASSOCIATIONS

SEC. 7. That corporations, to be known as national farm loan associations, may be organized by persons desiring to borrow money on farm mortgage security under the terms of this Act. Such persons shall enter into articles of association which shall specify in general terms the object for which the association is formed and the territory within which its operations are to be carried on, and which may contain any other provision, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. Said articles shall be signed by the persons uniting to form the association, and a copy thereof shall be forwarded to the Federal land bank for the district, to be filed and preserved in its office.

Every national farm loan association shall elect, in the manner prescribed for the election of directors of national banking associations, a board of not less than five directors, who shall hold office for the same period as directors of national banking associations. It shall be the duty of said board of directors to choose in such manner as they may prefer a secretary-treasurer, who shall receive such compensation as said board of directors shall determine. The board of directors shall elect a president, a vice-president, and a loan committee of three members.

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The directors and all officers except the secretary-treasurer shall serve without compensation, unless the payment of salaries to them shall be approved by the Federal Farm Loan Board. All officers and directors except the secretary-treasurer shall, during their term of office, be bona fide residents of the territory within which the association is authorized to do business, and shall be shareholders of the association.

It shall be the duty of the secretary-treasurer of every national farm loan association to act as custodian of its funds and to deposit the same in such bank as the board of directors may designate, to pay over to borrowers all sums received for their account from the Federal land bank upon first mortgage as in this Act prescribed, and to meet all other obligations of the association, subject to the orders of the board of directors and in accordance with the by-laws of the association. It shall be the duty of the secretary-treasurer, acting under the direction of the national farm loan association, to collect, receipt for, and transmit to the Federal land bank payments of interest, amortization installments, or principal arising out of loans made through the association. He shall be the custodian of the securities, records, papers, certificates of stock and all documents relating to or bearing upon the conduct of the affairs of the association. He shall furnish a suitable surety bond to be prescribed and approved by the Federal Farm Loan Board for the proper performance of the duties imposed upon him under this Act, which shall cover prompt collection and transmission of funds. He shall make a quarterly report to the Federal Farm Loan Board upon forms to be provided for that purpose. Upon request from said

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board said secretary-treasurer shall furnish information regarding the condition of the national farm loan association for which he is acting, and he shall carry out all duly authorized orders of said board. He shall assure himself from time to time that the loans made through the national farm loan association of which he is an officer are applied to the purposes set forth in the application of the borrower as approved, and shall forthwith report to the land bank of the district any failure of any borrower to comply with the terms of his application or mortgage. He shall also ascertain and report to said bank the amount of any delinquent taxes on land mortgaged to said bank and the name of the delinquent.

The reasonable expenses of the secretary-treasurer, the loan committee, and other officers and agents of national farm loan associations, and the salary of the secretary-treasurer, shall be paid from the general funds of the association, and the board of directors is authorized to set aside such sums as it shall deem requisite for that purpose and for other expenses of said association. When no such funds are available, the board of directors may levy an assessment on members in proportion to the amount of stock held by each, which may be repaid as soon as funds are available, or it may secure an advance from the Federal land bank of the district, to be repaid with interest at the rate of six per centum per annum, from dividends belonging to said association. Said Federal land bank is hereby authorized to make such advance and to deduct such repayment.

Ten or more natural persons who are the owners, or about to become the owners, of farm land qualified as

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security for a mortgage loan under section twelve of this Act, may unite to form a national farm loan association. They shall organize subject to the requirements and the conditions specified in this section and in section four of this Act, so far as the same may be applicable: *Provided*, That the board of directors may consist of five members only, and instead of a secretary and a treasurer there shall be a secretary-treasurer, who need not be a shareholder of the association.

When the articles of association are forwarded to the Federal land bank of the district as provided in this section, they shall be accompanied by the written report of the loan committee as required in section ten of this Act, and by an affidavit stating that each of the subscribers is the owner, or is about to become the owner, of farm land qualified under section twelve of this Act as the basis of a mortgage loan; that the loan desired by each person is not more than \$10,000, nor less than \$100, and that the aggregate of the desired loans is not less than \$20,000; that said affidavit is accompanied by a subscription to stock in the Federal land bank equal to five per centum of the aggregate sum desired on mortgage loans; and that a temporary organization of said association has been formed by the election of a board of directors, a loan committee, and a secretary-treasurer who subscribes to said affidavit, giving his residence and postoffice address.

Upon receipt of such articles of association, with the accompanying affidavit and stock subscription, the directors of said Federal land bank shall send an appraiser to investigate the solvency and character of the applicants and the value of their lands, and shall then determine whether

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in their judgment a charter should be granted to such association. They shall forward such articles of association and the accompanying affidavit to the Federal Farm Loan Board with their recommendation. If said recommendation is unfavorable, the charter shall be refused.

If said recommendation is favorable, the Federal Farm Loan Board shall thereupon grant a charter to the applicants therefor, designating the territory in which such association may make loans, and shall forward said charter to said applicants through said Federal land bank: *Provided*, That said Federal Farm Loan Board may for good cause shown in any case refuse to grant a charter.

Upon receipt of its charter such national farm loan association shall be authorized and empowered to receive from the Federal land bank of the district sums to be loaned to its members under the terms and conditions of this Act.

Whenever any national farm loan association shall desire to secure for any member a loan on first mortgage from the Federal land bank of its district it shall subscribe for capital stock of said land bank to the amount of five per centum of such loan, such subscription to be paid in cash upon the granting of the loan by said land bank. Such capital stock shall be held by said land bank as collateral security for the payment of said loan, but said association shall be paid any dividends accruing and payable on said capital stock while it is outstanding. Such stock may, in the discretion of the directors, and with the approval of the Federal Farm Loan Board, be paid off at par and retired, and it shall be so paid off and retired upon full payment of the mortgage loan. In such case the national farm loan association shall pay off at par and retire the corresponding

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shares of its stock which were issued when said land bank stock was issued. The capital stock of a Federal land bank shall not be reduced to an amount less than five per centum of the principal of the outstanding farm loan bonds issued by it.

CAPITAL STOCK OF NATIONAL FARM LOAN ASSOCIATIONS

SEC. 8. That the shares in national farm loan associations shall be of the par value of \$5 each.

Every shareholder shall be entitled to one vote on each share of stock held by him at all elections of directors and in deciding all questions at meetings of shareholders: *Provided*, That the maximum number of votes which may be cast by any one shareholder shall be twenty.

No persons but borrowers on farm land mortgages shall be members or shareholders of national farm loan associations. Any person desiring to borrow on farm land mortgage through a national farm loan association shall make application for membership and shall subscribe for shares of stock in such farm loan association to an amount equal to five per centum of the face of the desired loan, said subscription to be paid in cash upon the granting of the loan. If the application for membership is accepted and the loan is granted, the applicant shall, upon full payment therefor, become the owner of one share of capital stock in said loan association for each \$100 of the face of his loan, or any major fractional part thereof. Said capital stock shall be paid off at par and retired upon full payment of said loan. Said capital stock shall be held by said association as collateral security for the payment of said loan, but said borrower shall be paid any dividends accruing and payable on said capital stock while it is outstanding.

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Every national farm loan association formed under this Act shall by its articles of association provide for an increase of its capital stock from time to time for the purpose of securing additional loans for its members and providing for the issue of shares to borrowers in accordance with the provisions of this Act. Such increases shall be included in the quarterly reports to the Federal Farm Loan Board.

NATIONAL FARM LOAN ASSOCIATIONS—SPECIAL PROVISIONS

SEC. 9. That any person whose application for membership is accepted by a national farm loan association shall be entitled to borrow money on farm land mortgage upon filing his application in accordance with section eight and otherwise complying with the terms of this Act whenever the Federal land bank of the district has funds available for that purpose, unless said land bank or the Federal Farm Loan Board shall, in its discretion, otherwise determine.

Any person desiring to secure a loan through a national farm loan association under the provisions of this Act may, at his option, borrow from the Federal land bank through such association the sum necessary to pay for shares of stock subscribed for by him in the national farm loan association, such sum to be made a part of the face of the loan and paid off in amortization payments: *Provided, however,* That such addition to the loan shall not be permitted to increase said loan above the limitation imposed in subsection fifth of section twelve.

Subject to rules and regulations prescribed by the Federal Farm Loan Board, any national farm loan association

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shall be entitled to retain as a commission from each interest payment on any loan indorsed by it an amount to be determined by said board not to exceed one-eighth of one per centum semi-annually upon the unpaid principal of said loan, any amounts so retained as commissions to be deducted from dividends payable to such farm loan association by the Federal land bank, and to make application to the land bank of the district for loans not exceeding in the aggregate one-fourth of its total stock holdings in said land bank. The Federal land banks shall have power to make such loans to associations applying therefor and to charge interest at a rate not exceeding six per centum per annum.

Shareholders of every national farm loan association shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares.

After a charter has been granted to a national farm loan association, any natural person who is the owner, or about to become the owner, of farm land qualified under section twelve of this Act as the basis of a mortgage loan, and who desires to borrow on a mortgage of such farm land, may become a member of the association by a two-thirds vote of the directors upon subscribing for one share of the capital stock of such association for each \$100 of the face of his proposed loan or any major fractional part thereof. He shall at the same time file with the secretary-treasurer his application for a mortgage loan, giving the particulars required by section twelve of this Act.

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APPRAISAL

SEC. 10. That whenever an application for a mortgage loan is made to a national farm loan association, it shall be first referred to the loan committee provided for in section seven of this Act. Said loan committee shall examine the land which is offered as security for the desired loan and shall make a detailed written report signed by all three members, giving the appraisal of said land as determined by them, and such other information as may be required by rules and regulations to be prescribed by the Federal Farm Loan Board. No loan shall be approved by the directors unless said loan committee agrees upon a favorable report.

The written report of said loan committee shall be submitted to the Federal land bank, together with the application for the loan, and the directors of said land bank shall examine said written report when they pass upon the loan application which it accompanies, but they shall not be bound by said appraisal.

Before any mortgage loan is made by any Federal land bank, or joint stock land bank, it shall refer the application and written report of the loan committee to one or more of the land bank appraisers appointed under the authority of section three of this Act, and such appraiser or appraisers shall investigate and make a written report upon the land offered as security for said loan. No such loan shall be made by said bank unless said written report is favorable.

Forms for appraisal reports for farm loan associations and land banks shall be prescribed by the Federal Farm Loan Board.

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Land bank appraisers shall make such examinations and appraisals and conduct such investigations, concerning farm loan bonds and first mortgages, as the Federal Farm Loan Board shall direct.

No borrower under this Act shall be eligible as an appraiser under this section, but borrowers may act as members of a loan committee in any case where they are not personally interested in the loan under consideration. When any member of a loan committee or of a board of directors is interested, directly or indirectly, in a loan, a majority of the board of directors of any national farm loan association shall appoint a substitute to act in his place in passing upon such loan.

POWERS OF NATIONAL FARM LOAN ASSOCIATIONS

SEC. 11. That every national farm loan association shall have power:

First. To indorse, and thereby become liable for the payment of, mortgages taken from its shareholders by the Federal land bank of its district.

Second. To receive from the Federal land bank of its district funds advanced by said land bank, and to deliver said funds to its shareholders on receipt of first mortgages qualified under section twelve of this Act.

Third. To acquire and dispose of such property, real or personal, as may be necessary or convenient for the transaction of its business.

Fourth. To issue certificates against deposits of current funds bearing interest for not longer than one year at not to exceed four per centum per annum after six days from date, convertible into farm loan bonds when presented at the Federal land bank of the district in the

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amount of \$25 or any multiple thereof. Such deposits, when received, shall be forthwith transmitted to said land bank, and be invested by it in the purchase of farm loan bonds issued by a Federal land bank or in first mortgages as defined by this Act.

RESTRICTIONS ON LOANS BASED ON FIRST MORTGAGES

SEC. 12. That no Federal land bank organized under this Act shall make loans except upon the following terms and conditions:

First. Said loans shall be secured by duly recorded first mortgages on farm land within the land bank district in which the bank is situated.

Second. Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semi-annual installments sufficient to cover, first, a charge on the loan, at a rate not exceeding the interest rate in the last series of farm loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding one per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts to be applied on the principal as will extinguish the debt within an agreed period, not less than five years nor more than forty years: *Provided*, That after five years from the date upon which a loan is made additional payments in sums of \$25 or any multiple thereof for the reduction of the principal, or the payment of the entire principal, may be made on any regular installment date under the rules and regulations of the Federal Farm Loan Board: *And provided further*, That before the first issue of farm loan

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bonds by any land bank the interest rate on mortgages may be determined in the discretion of said land bank subject to the provisions and limitations of this Act.

Third. No loan on mortgage shall be made under this Act at a rate of interest exceeding six per centum per annum, exclusive of amortization payments.

Fourth. Such loans may be made for the following purposes and for no other:

(a) To provide for the purchase of land for agricultural uses.

(b) To provide for the purchase of equipment, fertilizers and live stock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" to be defined by the Federal Farm Loan Board.

(c) To provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board.

(d) To liquidate indebtedness of the owner of the land mortgaged, existing at the time of the organization of the first national farm loan association established in or for the county in which the land mortgaged is situated, or indebtedness subsequently incurred for purposes mentioned in this section.

Fifth. No such loan shall exceed fifty per centum of the value of the land mortgaged and twenty per centum of the value of the permanent, insured improvements thereon, said value to be ascertained by appraisal, as provided in section ten of this Act. In making said appraisal the value of the land for agricultural purposes shall be the basis of appraisal and the earning power of said land shall be a principal factor.

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A reappraisal may be permitted at any time in the discretion of the Federal land bank, and such additional loan may be granted as such reappraisal will warrant under the provisions of this paragraph. Whenever the amount of the loan applied for exceeds the amount that may be loaned under the appraisal as herein limited, such loan may be granted to the amount permitted under the terms of this paragraph without requiring a new application or appraisal.

Sixth. No such loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the farm mortgaged. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the deceased.

Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of \$10,000, nor shall any loan be for a less sum than \$100.

Eighth. Every applicant for a loan under the terms of this Act shall make application on a form to be prescribed for that purpose by the Federal Farm Loan Board, and such applicant shall state the objects to which the proceeds of said loan are to be applied, and shall afford such other information as may be required.

Ninth Every borrower shall pay simple interest on defaulted payments at the rate of eight per centum per annum, and by express covenant in his mortgage deed shall

undertake to pay when due all taxes, liens, judgments, or assessments which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments, or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.

Tenth. Every borrower who shall be granted a loan under the provisions of this Act shall enter into an agreement, in form and under conditions to be prescribed by the Federal Farm Loan Board, that if the whole or any portion of his loan shall be expended for purposes other than those specified in his original application, or if the borrower shall be in default in respect to any condition or covenant of the mortgage, the whole of said loan shall, at the option of the mortgagee, become due and payable forthwith: *Provided*, That the borrower may use part of said loan to pay for his stock in the farm loan association, and the land bank holding such mortgage may permit said loan to be used for any purpose specified in subsection fourth of this section.

Eleventh. That no loan or the mortgage securing same shall be impaired or invalidated by reason of the exercise of any power by any Federal land bank or national farm loan association in excess of the powers herein granted or any limitations thereon.

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Funds transmitted to farm loan associations by Federal land banks to be loaned to its members shall be in current funds, or farm loan bonds, at the option of the borrower.

POWERS OF FEDERAL LAND BANKS

SEC. 13. That every Federal land bank shall have power, subject to the limitations and requirements of this Act—

First. To issue, subject to the approval of the Federal Farm Loan Board, and to sell farm loan bonds of the kinds authorized in this Act, to buy the same for its own account, and to retire the same at or before maturity.

Second. To invest such funds as may be in its possession in the purchase of qualified first mortgages on farm lands situated within the Federal land bank district within which it is organized or for which it is acting.

Third. To receive and to deposit in trust with the farm loan registrar for the district, to be by him held as collateral security for farm loan bonds, first mortgages upon farm land, qualified under section twelve of this Act, and to empower national farm loan associations, or duly authorized agents, to collect and immediately pay over to said land banks the dues, interest, amortization installments and other sums payable under the terms, conditions, and covenants of the mortgages and of the bonds secured thereby.

Fourth. To acquire and dispose of—

(a) Such property, real or personal, as may be necessary or convenient for the transaction of its business, which, however, may be in part leased to others for revenue purposes.

(b) Parcels of land acquired in satisfaction of debts or purchased at sales under judgments, decrees, or mortgages

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held by it. But no such bank shall hold title and possession of any real estate purchased or acquired to secure any debt due to it, for a longer period than five years, except with the special approval of the Federal Farm Loan Board in writing.

Fifth. To deposit its securities, and its current funds subject to check, with any member bank of the Federal Reserve System, and to receive interest on the same as may be agreed.

Sixth. To accept deposits or securities or of current funds from national farm loan associations holding its shares but to pay no interest on such deposits.

Seventh. To borrow money, to give security therefor, and to pay interest thereon.

Eighth. To buy and sell United States bonds.

Ninth. To charge applicants for loans and borrowers, under rules and regulations promulgated by the Federal Farm Loan Board, reasonable fees not exceeding the actual cost of appraisal and determination of title. Legal fees and recording charges imposed by law in the State where the land to be mortgaged is located may also be included in the preliminary costs of negotiating mortgage loans. The borrower may pay such fees and charges or he may arrange with the Federal land bank making the loan to advance the same, in which case said expenses shall be made a part of the face of the loan and paid off in amortization payments. Such addition to the loan shall not be permitted to increase said loan above the limitations provided in section twelve.

RESTRICTIONS ON FEDERAL LAND BANKS

SEC. 14. That no Federal land bank shall have power—
First. To accept deposits of current funds payable upon

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demand except from its own stockholders, or to transact any banking or other business not expressly authorized by the provisions of this Act.

Second. To loan on first mortgage except through national farm loan associations as provided in section seven and section eight of this Act, or through agents as provided in section fifteen.

Third. To accept any mortgages on real estate except first mortgages created subject to all limitations imposed by section twelve of this Act, and those taken as additional security for existing loans.

Fourth. To issue or obligate itself for outstanding farm loan bonds in excess of twenty times the amount of its capital and surplus, or to receive from any national farm loan association additional mortgages when the principal remaining unpaid upon mortgages already received from such association shall exceed twenty times the amount of its capital stock owned by such association.

Fifth. To demand or receive, under any form or pretense, any commission or charge not specifically authorized in this Act.

AGENTS OF FEDERAL LAND BANKS

SEC. 15. That whenever, after this Act shall have been in effect one year, it shall appear to the Federal Farm Loan Board that national farm loan associations have not been formed, and are not likely to be formed, in any locality, because of peculiar local conditions, said board may, in its discretion, authorize Federal land banks to make loans on farm lands through agents approved by said board.

Such loans shall be subject to the same conditions and restrictions as if the same were made through national

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farm loan associations, and each borrower shall contribute five per centum of the amount of his loan to the capital of the Federal land bank, and shall become the owner of as much capital stock of the land bank as such contribution shall warrant.

No agent other than a duly incorporated bank, trust company, mortgage company, or savings institution, chartered by the State in which it has its principal office, shall be employed under the provisions of this section.

Federal land banks may pay to such agents the actual expense of appraising the land offered as security for a loan, examining and certifying the title thereof, and making, executing, and recording the mortgage papers; and in addition may allow said agents not to exceed one-half of one per centum per annum upon the unpaid principal of said loan, such commission to be deducted from dividends payable to the borrower on his stock in the Federal land bank.

Actual expenses paid to agents under the provisions of this section shall be added to the face of the loan and paid off in amortization payments subject to the limitations provided in subsection ninth of section thirteen of this Act.

Said agents, when required by the Federal land banks, shall collect and forward to such banks without charge all interest and amortization payments on loans indorsed by them.

Any agent negotiating any such loan shall indorse the same and become liable for the payment thereof, and for any default by the mortgagor, on the same terms and under the same penalties as if the loan had been originally made by said agent as principal and sold by said agent to said land bank, but the aggregate of the unpaid principal of

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mortgage loans received from any such agent shall not exceed ten times its capital and surplus.

If at any time the district represented by any agent under the provisions of this section shall, in the judgment of the Federal Farm Loan Board, be adequately served by national farm loan associations, no further loans shall be negotiated therein by agents under this section.

JOINT STOCK LAND BANKS

SEC. 16. That corporations, to be known as joint stock land banks, for carrying on the business of lending on farm mortgage security and issuing farm loan bonds, may be formed by any number of natural persons not less than ten. They shall be organized subject to the requirements and under the conditions set forth in section four of this Act, so far as the same may be applicable: *Provided*, That the board of directors of every joint stock land bank shall consist of not less than five members.

Shareholders of every joint stock land bank organized under this Act shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such bank to the extent of the amount of stock owned by them at the par value thereof, in addition to the amount paid in and represented by their shares.

Except as otherwise provided, joint stock land banks shall have the powers of, and be subject to all the restrictions and conditions imposed on, Federal land banks by this Act, so far as such restrictions and conditions are applicable: *Provided, however*, That the Government of the United States shall not purchase or subscribe for any of the capital stock of any such bank, and each shareholder

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of any such bank shall have the same voting privileges as holders of shares in national banking associations.

No joint stock land bank shall have power to issue or obligate itself for outstanding farm loan bonds in excess of fifteen times the amount of its capital and surplus, or to receive deposits or to transact any banking or other business not expressly authorized by the provisions of this Act.

No joint stock land bank shall be authorized to do business until capital stock to the amount of at least \$250,000 has been subscribed, one-half thereof paid in cash and the balance subject to call by the board of directors, and a charter has been issued to it by the Federal Farm Loan Board.

No joint stock land bank shall issue any bonds until after the capital stock is entirely paid up.

Farm loan bonds issued by joint stock land banks shall be so engraved as to be readily distinguished in form and color from farm loan bonds issued by Federal land banks, and shall otherwise bear such distinguishing marks as the Federal Farm Loan Board shall direct.

Joint stock land banks shall not be subject to the provisions of subsection (b) of section seventeen of this Act as to interest rates on mortgage loans or farm loan bonds, nor to the provisions of subsections first, fourth, sixth, seventh and tenth of section twelve as to restrictions on mortgage loans: *Provided, however,* That no loans shall be made which are not secured by first mortgages on farm lands within the State in which such joint stock land bank has its principal office, or within some one State contiguous to such State. Such joint stock land banks shall be sub-

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ject to all other restrictions on mortgage loans imposed on Federal land banks in section twelve of this Act.

Joint stock land banks shall in no case charge a rate of interest on farm loans exceeding by more than one per centum the rate of interest established for the last series of farm loan bonds issued by them.

Joint stock land banks shall in no case demand or receive, under any form or pretense, any commission or charge not specifically authorized in this Act.

Each joint stock land bank organized under this Act shall have authority to issue bonds based upon mortgages taken by it in accordance with the terms of this Act. Such bonds shall be in form prescribed by the Federal Farm Loan Board, and it shall be stated in such bonds that such bank is organized under section sixteen of this Act, is under Federal supervision, and operates under the provisions of this Act.

POWERS OF FEDERAL FARM LOAN BOARD

SEC. 17. That the Federal Farm Loan Board shall have power—

(a) To organize and charter Federal land banks, and to charter national farm loan associations and joint stock land banks subject to the provisions of this Act, and in its discretion to authorize them to increase their capital stock.

(b) To review and alter at its discretion the rate of interest to be charged by Federal land banks for loans made by them under the provisions of this Act, said rates to be uniform so far as practicable.

(c) To grant or refuse to Federal land banks, or joint stock land banks, authority to make any specific issue of farm loan bonds.

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- (d) To make rules and regulations respecting the charges made to borrowers on loans under this Act for expenses in appraisal, determination of title, and recording.
- (e) To require reports and statements of condition and to make examinations of all banks or associations doing business under the provisions of this Act.
- (f) To prescribe the form and terms of farm loan bonds, and the form, terms, and penal sums of all surety bonds required under this Act and of such other surety bonds as they shall deem necessary, such surety bonds to cover financial loss as well as faithful performance of duty.
- (g) To require Federal land banks to pay forthwith to any Federal land bank their equitable proportion of any sums advanced by said land bank to pay the coupons of any other land bank, basing said required payments on the amount of farm loan bonds issued by each land bank and actually outstanding at the time of such requirement.
- (h) To suspend or to remove for cause any district director or any registrar, appraiser, examiner, or other official appointed by said board under authority of section three of this Act, the cause of such suspension or removal to be communicated forthwith in writing by the Federal Farm Loan Board to the person suspended or removed, and in case of a district director to the proper Federal land bank.
- (i) To exercise general supervisory authority over the Federal land banks, the national farm loan associations and the joint stock land banks herein provided for.
- (j) To exercise such incidental powers as shall be necessary or requisite to fulfill its duties and carry out the purposes of this Act.

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APPLICATIONS FOR FARM LOAN BONDS

SEC. 18. That any Federal land bank, or joint stock land bank, which shall have voted to issue farm loan bonds under this Act, shall make written application to the Federal Farm Loan Board, through the farm loan registrar of the district, for approval of such issue. With said application said land bank shall tender to said farm loan registrar as collateral security first mortgages on farm lands qualified under the provisions of section twelve, section fifteen, or section sixteen of this Act, or United States Government bonds, not less in aggregate amount than the sum of the bonds proposed to be issued. Said bank shall furnish with such mortgages a schedule containing a description thereof and such further information as may be prescribed by the Federal Farm Loan Board.

Upon receipt of such application said farm loan registrar shall verify said schedule and shall transmit said application and said schedule to the Federal Farm Loan Board, giving such further information pertaining thereto as he may possess. The Federal Farm Loan Board shall forthwith cause to be made such investigation and appraisement of the securities tendered as it shall deem wise, and it shall grant in whole or in part, or reject entirely, such application.

The Federal Farm Loan Board shall promptly transmit its decision as to any issue of farm loan bonds to the land bank applying for the same and to the farm loan registrar of the district. Said registrar shall furnish, in writing, such information regarding any issue of farm loan bonds as the Federal Farm Loan Board may at any time require.

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No issue of farm loan bonds shall be authorized unless the Federal Farm Loan Board shall approve such issue in writing.

ISSUE OF FARM LOAN BONDS

SEC. 19. That whenever any farm loan registrar shall receive from the Federal Farm Loan Board notice that it has approved any issue of farm loan bonds under the provisions of section eighteen he shall forthwith take such steps as may be necessary, in accordance with the provisions of this Act, to insure the prompt execution of said bonds and the delivery of the same to the land bank applying therefor.

Whenever the Federal Farm Loan Board shall reject entirely any application for an issue of farm loan bonds, the first mortgages and bonds tendered to the farm loan registrar as collateral security therefor shall be forthwith returned to said land bank by him.

Whenever the Federal Farm Loan Board shall approve an issue of farm loan bonds, the farm loan registrar having the custody of the first mortgages and bonds tendered as collateral security for such issue of bonds shall retain in his custody those first mortgages and bonds which are to be held as collateral security, and shall return to the bank owning the same any of said mortgages and bonds which are not to be held by him as collateral security. The land bank which is to issue said farm loan bonds shall transfer to said registrar, by assignment, in trust, all first mortgages and bonds which are to be held by said registrar as collateral security, said assignment providing for the right of redemption at any time by payment as provided in this Act and reserving the right of substitution of other mort-

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gages qualified under sections twelve, fifteen, and sixteen of this Act. Said mortgages and bonds shall be deposited in such deposit vault or bank as the Federal Farm Loan Board shall approve, subject to the control of said registrar and in his name as trustee for the bank issuing the farm loan bonds and for the prospective holders of said farm loan bonds.

No mortgage shall be accepted by a farm loan registrar from a land bank as part of an offering to secure an issue of farm loan bonds, either originally or by substitution, except first mortgages made subject to the conditions prescribed in said sections twelve, fifteen, and sixteen.

It shall be the duty of each farm loan registrar to see that the farm loan bonds delivered by him and outstanding do not exceed the amount of collateral security pledged therefor. Such registrar may, in his discretion, temporarily accept, in place of mortgages withdrawn, United States Government bonds or cash.

The Federal Farm Loan Board may, at any time, call upon any land bank for additional security to protect the bonds issued by it.

FORM OF FARM LOAN BONDS

SEC. 20. That bonds provided for in this Act shall be issued in denominations of \$25, \$50, \$100, \$500, and \$1,000; they shall run for specified minimum and maximum periods, subject to payment and retirement, at the option of the land bank, at any time after five years from the date of their issue. They shall have interest coupons attached, payable semi-annually, and shall be issued in series of not less than \$50,000, the amount and terms to be fixed by the Federal Farm Loan Board. They shall bear

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a rate of interest not to exceed five per centum per annum.

The Federal Farm Loan Board shall prescribe rules and regulations concerning the circumstances and manner in which farm loan bonds shall be paid and retired under the provisions of this Act.

Farm loan bonds shall be delivered through the registrar of the district to the bank applying for the same.

In order to furnish farm loan bonds for delivery at the Federal land banks and joint stock land banks, the Secretary of the Treasury is hereby authorized to prepare suitable bonds in such form, subject to the provisions of this Act, as the Federal Farm Loan Board may approve, such bonds when prepared to be held in the Treasury subject to delivery upon order of the Federal Farm Loan Board. The engraved plates, dies, bed-pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. Any expenses incurred in the preparation, custody, and delivery of such farm loan bonds shall be paid by the Secretary of the Treasury from any funds in the Treasury not otherwise appropriated: *Provided, however,* That the Secretary shall be reimbursed for such expenditures by the Federal Farm Loan Board through assessment upon the farm land banks in proportion to the work executed. They may be exchanged into registered bonds of any amount, and re-exchanged into coupon bonds, at the option of the holder, under rules and regulations to be prescribed by the Federal Farm Loan Board.

SPECIAL PROVISIONS OF FARM LOAN BONDS

SEC. 21. That each land bank shall be bound in all respects by the acts of its officers in signing and issuing

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farm loan bonds, and by the acts of the Federal Farm Loan Board in authorizing their issue.

Every Federal land bank issuing farm loan bonds shall be primarily liable therefor, and shall also be liable, upon presentation of farm loan bond coupons, for interest payments due upon any farm loan bonds issued by other Federal land banks and remaining unpaid in consequence of the default of such other land banks; and every such bank shall likewise be liable for such portion of the principal of farm loan bonds so issued as shall not be paid after the assets of any such other land banks shall have been liquidated and distributed: *Provided*, That such losses, if any, either of interest or of principal, shall be assessed by the Federal Farm Loan Board against solvent land banks liable therefor in proportion to the amount of farm loan bonds which each may have outstanding at the time of such assessment.

Every Federal land bank shall by appropriate action of its board of directors, duly recorded in its minutes, obligate itself to become liable on farm loan bonds as provided in this section.

Every farm loan bond issued by a Federal land bank shall be signed by its president and attested by its secretary, and shall contain in the face thereof a certificate signed by the Farm Loan Commissioner to the effect that it is issued under the authority of the Federal Farm Loan Act, has the approval in form and issue of the Federal Farm Loan Board, and is legal and regular in all respects; that it is not taxable by National, State, municipal, or local authority; that it is issued against collateral security of United States Government bonds, or indorsed first mortgages on

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farm lands, at least equal in amount to the bonds issued; and that all Federal land banks are liable for the payment of each bond.

APPLICATION OF AMORTIZATION AND INTEREST PAYMENTS

SEC. 22. That whenever any Federal land bank, or joint stock land bank, shall receive any interest, amortization or other payments upon any first mortgage or bond pledge as collateral security for the issue of farm loan bonds, it shall forthwith notify the farm loan registrar of the items so received. Said registrar shall forthwith cause such payment to be duly credited upon the mortgage entitled to such credit. Whenever any such mortgage is paid in full, said registrar shall cause the same to be canceled and delivered to the proper land bank, which shall promptly satisfy and discharge the lien of record and transmit such canceled mortgage to the original maker thereof, or his heirs, administrators, executors, or assigns.

Upon written application by any Federal land bank, or joint stock land bank, to the farm loan registrar, it may be permitted, in the discretion of said registrar, to withdraw any mortgages or bonds pledged as collateral security under this Act, and to substitute therefor other similar mortgages or United States Government bonds not less in amount than the mortgages or bonds desired to be withdrawn.

Whenever any farm loan bonds, or coupons or interest payments of such bonds, are due under their terms, they shall be payable at the land bank by which they were issued, in gold or lawful money, and upon payment shall be duly canceled by said bank. At the discretion of the Federal

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Farm Loan Board, payment of any farm loan bond or coupon or interest payment may, however, be authorized to be made at any Federal land bank, any joint stock land bank, or any other bank, under rules and regulations to be prescribed by the Federal Farm Loan Board.

When any land bank shall surrender to the proper farm loan registrar any farm loan bonds of any series, canceled or uncanceled, said land bank shall be entitled to withdraw first mortgages and bonds pledged as collateral security for any of said series of farm loan bonds to an amount equal to the farm loan bonds so surrendered, and it shall be the duty of said registrar to permit and direct the delivery of such mortgages and bonds to such land bank.

Interest payments on hypothecated first mortgages shall be at the disposal of the land bank pledging the same, and shall be available for the payment of coupons and the interest of farm loan bonds as they become due.

Whenever any bond matures, or the interest on any registered bond is due, or the coupon on any coupon bond matures, and the same shall be presented for payment as provided in this Act, the full face value thereof shall be paid to the holder.

Amortization and other payments on the principal of first mortgages held by a farm loan registrar as collateral security for the issue of farm loan bonds shall constitute a trust fund in the hands of the Federal land bank or joint stock land bank receiving the same, and shall be applied or employed as follows:

In the case of a Federal land bank—

(a) To pay off farm loan bonds issued by said bank as they mature.

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(b) To purchase at or below par farm loan bonds issued by said bank or by any other Federal land bank.

(c) To loan on first mortgages on farm lands within the land bank district, qualified under this Act as collateral security for an issue of farm loan bonds.

(d) To purchase United States Government bonds.

In the case of a joint stock land bank—

(a) To pay off farm loan bonds issued by said bank as they mature.

(b) To purchase at or below par farm loan bonds.

(c) To loan on first mortgages qualified under section sixteen of this Act.

(d) To purchase United States Government bonds.

The farm loan bonds, first mortgages, United States Government bonds, or cash constituting the trust fund aforesaid, shall be forthwith deposited with the farm loan registrar as substituted collateral security in place of the sums paid on the principal of indorsed mortgages held by him in trust.

Every Federal land bank, or joint stock land bank, shall notify the farm loan registrar of the disposition of all payments made on the principal of mortgages held as collateral security for an issue of farm loan bonds, and said registrar is authorized, at his discretion, to order any of such payments, or the proceeds thereof, wherever deposited or however invested, to be immediately transferred to his account as trustee aforesaid.

RESERVES AND DIVIDENDS OF LAND BANKS

Sec. 23. That every Federal land bank, and every joint stock land bank, shall semi-annually carry to reserve account twenty-five per centum of its net earnings until

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said reserve account shall show a credit balance equal to twenty per centum of the outstanding capital stock of said land bank. Whenever said reserve shall have been impaired, said balance of twenty per centum shall be fully restored before any dividends are paid. After said reserve has reached the sum of twenty per centum of the outstanding capital stock, five per centum of the net earnings shall be annually added thereto. For the period of two years from the date when any default occurs in the payment of the interest, amortization installments, or principal on any first mortgage, by both mortgagor and indorser, the amount so defaulted shall be carried to a suspense account, and at the end of the two-year period specified, unless collected, shall be debited to reserve account.

After deducting the twenty-five per centum or the five per centum hereinbefore directed to be deducted for credit to reserve account, any Federal land bank or joint stock land bank may declare a dividend to shareholders of the whole or any part of the balance of its net earnings. The reserves of land banks shall be invested in accordance with rules and regulations to be prescribed by the Federal Farm Loan Board.

RESERVE AND DIVIDENDS OF NATIONAL FARM LOAN ASSOCIATIONS

SEC. 24. That every national farm loan association shall, out of its net earnings, semi-annually carry to reserve account a sum not less than ten per centum of such net earnings until said reserve account shall show a credit balance equal to twenty per centum of the outstanding capital stock of said association.

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Whenever said reserve shall have been impaired, said credit balance of twenty per centum shall be fully restored before any dividends are paid. After said reserve has reached said sum of twenty per centum, two per centum of the net earnings shall be annually added thereto.

After deducting the ten per centum or the two per centum hereinbefore directed to be credited to reserve account, said association may, at its discretion, declare a dividend to shareholders of the whole or any part of the balance of said net earnings.

The reserves of farm loan associations shall be invested in accordance with rules and regulations to be prescribed by the Federal Farm Loan Board.

Whenever any farm loan association shall be voluntarily liquidated a sum equal to its reserve account as herein required shall be paid to and become the property of the Federal land bank in which such loan association may be a shareholder.

DEFAULTED LOANS

SEC. 25. That if there shall be default under the terms of any indorsed first mortgage held by a Federal land bank under the provisions of this Act, the national farm loan association or agent through which said mortgage was received by said Federal land bank shall be notified of said default. Said association or agent may thereupon be required, within thirty days after such notice, to make good said default, either by payment of the amount unpaid thereon in cash, or by the substitution of an equal amount of farm loan bonds issued by said land bank, with all unmatured coupons attached.

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EXEMPTION FROM TAXATION

SEC. 26. That every Federal land bank and every national farm loan association, including the capital and reserve or surplus therein and the income derived therefrom, shall be exempt from Federal, State, municipal, and local taxation, except taxes upon real estate held, purchased, or taken by said bank or association under the provisions of section eleven and section thirteen of this Act. First mortgages executed to Federal land banks, or to joint stock land banks, and farm loan bonds issued under the provisions of this Act, shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

Nothing herein shall prevent the shares in any joint stock land bank from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the State within which the bank is located; but such assessment and taxation shall be in manner and subject to the conditions and limitations contained in section fifty-two hundred and nineteen of the Revised Statutes with reference to the shares of national banking associations.

Nothing herein shall be construed to exempt the real property of Federal and joint stock land banks and national farm loan associations from either State, county, or municipal taxes, to the same extent, according to its value, as other real property is taxed.

INVESTMENT IN FARM LOAN BONDS

SEC. 27. That farm loan bonds issued under the provisions of this Act by Federal land banks or joint stock

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land banks shall be a lawful investment for all fiduciary and trust funds, and may be accepted as security for all public deposits.

Any member bank of the Federal Reserve System may buy and sell farm loan bonds issued under the authority of this Act.

Any Federal Reserve Bank may buy and sell farm loan bonds issued under this Act to the same extent and subject to the same limitations placed upon the purchase and sale by said banks of State, county, district, and municipal bonds under subsection (b) of section fourteen of the Federal Reserve Act approved December twenty-third, nineteen hundred and thirteen.

EXAMINATIONS

SEC. 28. That the Federal Farm Loan Board shall appoint as many land bank examiners as in its judgment may be required to make careful examinations of the banks and associations permitted to do business under this Act.

Said examiners shall be subject to the same requirements, responsibilities and penalties as are applicable to national bank examiners under the national bank Act, the Federal Reserve Act and other provisions of law. Whenever directed by the Federal Farm Loan Board, said examiners shall examine the condition of any national farm loan association and report the same to the Farm Loan Commissioner. They shall examine and report the condition of every Federal land bank and joint stock land bank at least twice each year.

Said examiners shall receive salaries to be fixed by the Federal Farm Loan Board.

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DISSOLUTION AND APPOINTMENT OF RECEIVERS

SEC. 29. That upon receiving satisfactory evidence that any national farm loan association has failed to meet its outstanding obligations of any description the Federal Farm Loan Board may forthwith declare such association insolvent and appoint a receiver and require of him such bond and security as it deems proper: *Provided*, That no national farm loan association shall be declared insolvent by said board until the total amount of defaults of current interest and amortization installments on loans indorsed by national farm loan associations shall amount to at least \$150,000 in the Federal land bank district, unless such association shall have been in default for a period of two years. Such receiver, under the direction of the Federal Farm Loan Board, shall take possession of the books, records, and assets of every description of such association, collect all debts, dues, and claims belonging to it, and, with the approval of the Federal Farm Loan Board, or upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and, on a like approval or order, may sell all the real and personal property of such association, on such terms as the Federal Farm Loan Board or said court shall direct.

Such receiver shall pay over all money so collected to the Treasurer of the United States, subject to the order of the Federal Farm Loan Board, and also make report to said board of all his acts and proceedings. The Secretary of the Treasury shall have authority to deposit at interest any money so received.

Upon default of any obligation, Federal land banks and joint stock land banks may be declared insolvent and

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placed in the hands of a receiver by the Federal Farm Loan Board, and proceedings shall thereupon be had in accordance with the provisions of this section regarding national farm loan associations.

If any national farm loan association shall be declared insolvent and a receiver shall be appointed therefor by the Federal Farm Loan Board, the stock held by it in the Federal land bank of its district shall be canceled without impairment of its liability; and all payments on such stock with accrued dividends, if any, since the date of the last dividend shall be first applied to all debts of the insolvent farm loan association to the Federal land bank and the balance, if any, shall be paid to the receiver of said farm loan association: *Provided*, That in estimating said debts contingent liabilities incurred by national farm loan associations under the provisions of this Act on account of default of principal or interest of indorsed mortgages shall be estimated and included as a debt, and said contingent liabilities shall be determined by agreement between the receiver and the Federal land bank of the district, subject to the approval of the Federal Farm Loan Board, and if said receiver and said land bank can not agree, then by the decision of the Farm Loan Commissioner, and the amount thus ascertained shall be deducted in accordance with the provisions of this section from the amount otherwise due the said national farm loan association for said canceled stock. Whenever the capital stock of a Federal land bank shall be reduced, the board of directors shall cause to be executed a certificate to the Federal Farm Loan Board, showing such reduction of capital stock, and, if said reduction shall be due to the insolvency of a na-

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tional farm loan association, the amount repaid to such association.

No national farm loan association, Federal land bank or joint stock land bank shall go into voluntary liquidation without the written consent of the Federal Farm Loan Board, but national farm loan associations may consolidate under rules and regulations promulgated by the Federal Farm Loan Board.

STATE LEGISLATION

SEC. 30. That it shall be the duty of the Farm Loan Commissioner to make examination of the laws of every State of the United States and to inform the Federal Farm Loan Board as rapidly as may be whether in his judgment the laws of each State relating to the conveying and recording of land titles, and the foreclosure of mortgages or other instruments securing loans, as well as providing homestead and other exemptions and granting the power to waive such exemptions as respects first mortgages, are such as to assure the holder thereof adequate safeguards against loss in the event of default on loans secured by any such mortgages.

Pending the making of such examination in the case of any State, the Federal Farm Loan Board may declare first mortgages on farm lands situated within such State ineligible as the basis for an issue of farm loan bonds; and if said examination shall show that the laws of any such State afford insufficient protection to the holder of first mortgages of the kinds provided in this Act, said Federal Farm Loan Board may declare said first mortgages on land situated in such State ineligible during the continuance of the laws in question. In making his examination

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of the laws of the several States and forming his conclusions thereon said Farm Loan Commissioner may call upon the office of the Attorney General of the United States for any needed legal advice or assistance, or may employ special counsel in any State where he considers such action necessary.

At the request of the executive of any State the Federal Farm Loan Board shall prepare a statement setting forth in what respects the requirements of said board can not be complied with under the existing laws of such State.

PENALTIES

SEC. 31. That any applicant for a loan under this Act who shall knowingly make any false statement in his application for such loan, and any member of a loan committee or any appraiser provided for in this Act who shall willfully overvalue any land offered as security for loans under this Act, shall be punished by a fine of not exceeding \$5,000, or by imprisonment not exceeding one year, or both. Any examiner appointed under this Act who shall accept a loan or gratuity from any land bank or national farm loan association examined by him, or from any person connected with any such bank or association in any capacity, shall be punished by a fine of not exceeding \$5,000, or by imprisonment not exceeding one year, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall forever thereafter be disqualified from holding office as an examiner under the provisions of this Act. No examiner, while holding such office, shall perform any other service for compensation for any bank or banking or loan association, or for any person connected therewith in any capacity.

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Any person who shall falsely make, forge, or counterfeit, or cause or procure to be falsely made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting any bond, coupon, or paper in imitation of, or purporting to be in imitation of, the bonds or coupons issued by any land bank or national farm loan association, now or hereafter authorized and acting under the laws of the United States; or any person who shall pass, utter, or publish, or attempt to pass, utter, or publish any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by any such bank or association, knowing the same to be falsely made, forged, or counterfeited; or whoever shall falsely alter, or cause or procure to be falsely altered, or shall willingly aid or assist in falsely altering any such bond, coupon, or paper, or shall pass, utter, or publish as true any falsely altered or spurious bond, coupon, or paper issued, or purporting to have been issued, by any such bank or association, knowing the same to be falsely altered or spurious, shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or both.

Other than the usual salary or director's fee paid to any officer, director, or employee of a national farm loan association, a Federal land bank, or a joint stock land bank, and other than a reasonable fee paid by such association or bank to any officer, director, attorney, or employee for services rendered, no officer, director, attorney, or employee of an association or bank organized under this Act shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of such asso-

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ciation or bank. No land bank or national farm loan association organized under this Act shall charge or receive any fee, commission, bonus, gift, or other consideration not herein specifically authorized. No examiner, public or private, shall disclose the names of borrowers to other than the proper officers of a national farm loan association or land bank without first having obtained express permission in writing from the Farm Loan Commissioner or from the board of directors of such association or bank, except when ordered to do so by a court of competent jurisdiction or by direction of the Congress of the United States, or of either House thereof, or any committee of Congress or of either House duly authorized. Any person violating any provision of this paragraph shall be punished by a fine of not exceeding \$5,000 or by imprisonment not exceeding one year, or both.

Any person connected in any capacity with any national farm loan association, Federal land bank, or joint stock land bank, who embezzles, abstracts, or willfully misapplies any moneys, funds, or credits thereof, or who without authority from the directors draws any order, assigns any note, bond, draft, mortgage, judgment, or decree thereof, or who makes any false entry in any book, report, or statement of such association or land bank with intent in either case to defraud such institution or any other company, body politic or corporate, or any individual person, or to deceive any officer of a national farm loan association or land bank or any agent appointed to examine into the affairs of any such association or bank, and every person who with like intent aids or abets any officer, clerk, or agent in any violation of this section, shall be punished

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by a fine of not exceeding \$5,000 or by imprisonment not exceeding five years, or both.

Any person who shall deceive, defraud, or impose upon, or who shall attempt to deceive, defraud or impose upon any person, firm, or corporation by making any false pretense or representation regarding the character, issue, security, or terms of any farm loan bond, or coupon, issued under the terms of this Act; or by falsely pretending or representing that any farm loan bond, or coupon, issued under the terms of this Act by one class of land banks is a farm loan bond, or coupon, issued by another class of banks; or by falsely pretending or representing that any farm loan bond, or coupon, issued under the terms of this Act, or anything contained in said farm loan bond, or coupon, is anything other than, or different from, what it purports to be on the face of said bond or coupon, shall be fined not exceeding \$500 or imprisoned not exceeding one year, or both.

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest, and deliver into custody of the United States marshal having jurisdiction, any person or persons violating any of the provisions of this section.

GOVERNMENT DEPOSITS

SEC. 32. That the Secretary of the Treasury is authorized, in his discretion, upon the request of the Federal Farm Loan Board, to make deposits for the temporary use of any Federal land bank, out of any money in the Treasury not otherwise appropriated. Such Federal land bank shall issue to the Secretary of the Treasury a certificate of indebtedness for any such deposit, bearing a rate of interest

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not to exceed the current rate charged for other Government deposits, to be secured by farm loan bonds or other collateral, to the satisfaction of the Secretary of the Treasury. Any such certificate shall be redeemed and paid by such land bank at the discretion of the Secretary of the Treasury. The aggregate of all sums so deposited by the Secretary of the Treasury shall not exceed the sum of \$6,000,000 at any one time.

ORGANIZATION EXPENSES

SEC. 33. That the sum of \$100,000, or so much thereof as may be necessary, is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to be expended under the direction of the Federal Farm Loan Board, for the purpose of carrying into effect the provisions of this Act, including the rent and equipment of necessary offices.

LIMITATION OF COURT DECISIONS

SEC. 34. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

REPEALING CLAUSE

SEC. 35. That all Acts or parts of Acts inconsistent with this Act are hereby repealed, and this Act shall take effect upon its passage. The right to amend, alter, or repeal this Act is hereby expressly reserved.

TABLE C—COMPOUND INTEREST

Showing how the sum of \$85, deposited or invested on the first day of each year so that it will earn 5% interest annually, will increase from year to year until at the end of 33 years it aggregates \$7,145.64.

Years	Annual deposit	Plus total at end of year	Aggregate upon which interest accrues	Interest at 5% thereon	Total at end of year
1-----	\$85	-----	-----	\$4.25	\$89.25
2-----	85	\$89.25	\$174.25	8.712	182.96
3-----	85	182.96	267.96	13.398	281.358
4-----	85	281.358	366.358	18.317	384.675
5-----	85	384.675	469.675	23.483	493.158
6-----	85	493.158	578.158	28.907	607.065
7-----	85	607.065	692.065	34.603	726.668
8-----	85	726.668	811.668	40.583	852.251
9-----	85	852.251	937.251	46.862	984.113
10-----	85	984.113	1069.113	53.455	1122.568
11-----	85	1122.568	1207.568	60.378	1267.946
12-----	85	1267.946	1352.946	67.647	1420.593
13-----	85	1420.593	1505.593	75.279	1580.872
14-----	85	1580.872	1665.872	83.293	1749.165
15-----	85	1749.165	1834.165	91.708	1925.873
16-----	85	1925.873	2010.873	100.543	2111.416
17-----	85	2111.416	2196.416	109.820	2306.236
18-----	85	2306.236	2391.236	119.561	2510.797
19-----	85	2510.797	2595.797	129.789	2725.586
20-----	85	2725.586	2810.586	140.529	2951.115
21-----	85	2951.115	3036.115	151.805	3187.920
22-----	85	3187.920	3272.920	163.646	3436.566
23-----	85	3436.566	3521.566	170.078	3697.644
24-----	85	3697.644	3782.644	189.322	3971.776
25-----	85	3971.776	4056.776	202.838	4259.614
26-----	85	4259.614	4344.614	217.230	4561.844
27-----	85	4561.844	4646.844	232.342	4879.186
28-----	85	4879.186	4964.186	248.209	5212.395
29-----	85	5212.395	5297.395	264.869	5562.264
30-----	85	5562.264	5647.264	282.363	5929.627
31-----	85	5929.627	6014.627	300.731	6315.358
32-----	85	6315.358	6400.358	320.017	6720.375
33-----	85	6720.375	6805.375	340.268	7145.643

It appears from the above that the deposits of \$85 annually, in 33 years make a total principal of only \$2,805. Now, in the instance cited on page 122, the borrower is assumed to pay the \$85 at the end of each year. Thus the lender gets compound interest only for 32 years. Hence, the 32 deposits will have earned in interest and compound interest for the same period \$3,595.36. Add to this sum the 33 deposits amounting to \$2,805, and we get \$6,400.36 as the total return to the lender for the use of \$1,000 at 8½% for 33 years.

AMORTIZATION TABLES AT FIVE PER CENT.

Showing Interest Payments and Reduction of Principal on a Loan of \$1,000 With Interest at 5%

Observe that the interest saved each year is added to the amount paid on principal the next year. Thus, though the installments or dues paid remain the same, the proportion thereof applicable to principal increases with the years, so that when the note matures, there is nothing to pay because the dues meanwhile have met the interest and also liquidated the principals.

ANNUAL PAYMENTS

No. of years	instalment yearly	Interest at 5 %	Applied on Principal	Balance of Principal unpaid
0				\$1000.00
1	\$60.00	\$50.00	\$10.00	990.00
2	60.00	49.50	10.50	979.50
3	60.00	49.00	11.00	968.50
4	60.00	48.40	11.60	956.90
5	60.00	47.80	12.20	944.70*
6	60.00	47.20	12.80	931.90
7	60.00	46.60	13.40	918.50
8	60.00	45.90	14.10	904.40
9	60.00	45.20	14.80	889.60
10	60.00	44.50	15.50	874.10
11	60.00	43.70	16.30	857.80
12	60.00	42.90	17.10	840.70
13	60.00	42.00	18.00	822.70
14	60.00	41.10	18.90	803.80
15	60.00	40.20	19.80	784.00
16	60.00	39.20	20.80	763.20
17	60.00	38.29	21.80	741.40
18	60.00	37.10	22.90	718.50
19	60.00	35.90	24.10	694.40
20	60.00	34.70	25.30	669.10
21	60.00	33.50	26.50	642.60
22	60.00	32.10	27.90	614.70
23	60.00	30.70	29.30	585.40
24	60.00	29.30	30.70	554.70
25	60.00	27.70	32.30	522.40
26	60.00	26.10	33.90	488.50
27	60.00	24.40	35.60	452.90
28	60.00	22.60	37.40	415.50
29	60.00	20.80	39.20	376.30
30	60.00	18.80	41.20	335.10
31	60.00	16.80	43.20	291.90
32	60.00	14.60	45.40	246.50
33	60.00	12.30	47.70	198.80
34	60.00	9.90	50.10	148.70
35	60.00	7.40	52.60	96.10
36	100.90	4.80	96.10	—

SEMI-ANNUAL PAYMENTS

No. of years	Instalment semi-annually	Interest at 5 %	Applied on principal	Balance of Principal unpaid
0				\$1000.00
1	\$30.00	\$25.00	\$5.00	995.00
1 1/2	30.00	24.88	5.12	989.88
2	30.00	24.75	5.25	984.63
2 1/2	30.00	24.62	5.38	979.25
3	30.00	24.48	5.52	973.73
3 1/2	30.00	24.34	5.66	968.07
4	30.00	24.20	5.80	962.27
4 1/2	30.00	24.06	5.94	956.33
5	30.00	23.91	6.09	950.24
5 1/2	30.00	23.76	6.24	944.00
6	30.00	23.60	6.40	937.60
6 1/2	30.00	23.44	6.56	931.04
7	30.00	23.28	6.72	924.32
7 1/2	30.00	23.11	6.89	917.43
8	30.00	22.94	7.06	910.37
8 1/2	30.00	22.76	7.24	903.13
9	30.00	22.58	7.42	895.71
9 1/2	30.00	22.39	7.61	888.10
10	30.00	22.20	7.80	880.30
10 1/2	30.00	22.01	7.99	872.31
11	30.00	21.81	8.19	864.12
11 1/2	30.00	21.60	8.40	855.72
12	30.00	21.39	8.61	847.11
12 1/2	30.00	21.18	8.82	838.29
13	30.00	20.96	9.04	829.25
13 1/2	30.00	20.73	9.27	819.98
14	30.00	20.50	9.50	810.48
14 1/2	30.00	20.28	9.74	800.74
15	30.00	20.02	9.98	790.76
15 1/2	30.00	19.77	10.23	780.53
16	30.00	19.51	10.49	770.04
16 1/2	30.00	19.25	10.75	759.29
17	30.00	18.98	11.02	748.27
17 1/2	30.00	18.71	11.29	736.98
18	30.00	18.42	11.58	725.40
18 1/2	30.00	18.14	11.86	713.54
19	30.00	17.84	12.16	701.38
19 1/2	30.00	17.53	12.47	688.91
20	30.00	17.22	12.78	676.13
20 1/2	30.00	16.90	13.10	663.03
21	30.00	16.58	13.42	649.61
21 1/2	30.00	16.24	13.76	635.85
22	30.00	15.90	14.10	621.75
22 1/2	30.00	15.54	14.46	607.29
23	30.00	15.18	14.82	592.47
23 1/2	30.00	14.81	15.19	577.28
24	30.00	14.43	15.57	561.71
24 1/2	30.00	14.04	15.96	545.75
25	30.00	13.64	16.36	529.35
25 1/2	30.00	13.23	16.77	512.62
26	30.00	12.82	17.18	495.44
26 1/2	30.00	12.39	17.61	477.83
27	30.00	11.95	18.05	459.78
27 1/2	30.00	11.49	18.51	441.27
28	30.00	11.03	18.97	422.30
28 1/2	30.00	10.56	19.44	402.86
29	30.00	10.07	19.93	382.93
		9.57	20.42	362.50

29½	30.00	9.06	26.94	341.56
30	30.00	8.54	21.46	320.10
30½	30.00	8.00	22.00	298.10
31	30.00	7.45	22.55	275.55
31½	30.00	6.89	23.11	252.44
32	30.00	6.31	23.69	228.75
32½	30.00	5.72	24.28	204.47
33	30.00	5.11	24.89	179.58
33½	30.00	4.49	25.51	154.07
34	30.00	3.85	26.15	127.92
34½	30.00	3.20	26.80	101.12
35	30.00	2.53	27.47	73.65
35½	30.00	1.84	28.16	45.49
36	46.60	1.11	45.49	

INTEREST AT $5\frac{1}{2}\%$
ANNUAL PAYMENTS

No. of years	Instalment yearly	Interest at $5\frac{1}{2}\%$	Applied on principal	Balance of principal unpaid
0				\$1000.00
1	\$65.00	\$55.00	\$10.00	990.00
2	65.00	54.45	10.55	979.45
3	65.00	53.87	11.13	968.32
4	65.00	53.26	11.74	956.58
5	65.00	52.61	12.39	944.19*
6	65.00	51.93	13.07	931.12
7	65.00	51.21	13.79	917.33
8	65.00	50.45	14.55	902.78
9	65.00	49.65	15.35	887.43
10	65.00	48.81	16.19	871.24
11	65.00	47.92	17.08	854.16
12	65.00	46.98	18.02	836.14
13	65.00	45.99	19.01	817.13
14	65.00	44.94	20.06	797.07
15	65.00	43.84	21.16	775.91
16	65.00	42.68	22.32	753.59
17	65.00	41.45	23.55	730.04
18	65.00	40.15	24.85	705.19
19	65.00	38.79	26.21	678.98
20	65.00	37.34	27.66	651.32
21	65.00	35.82	29.18	622.14
22	65.00	34.22	30.78	591.36
23	65.00	32.52	32.48	558.88
24	65.00	30.74	34.26	524.62
25	65.00	28.85	36.15	488.47
26	65.00	26.87	38.13	450.34
27	65.00	24.77	40.23	410.11
28	65.00	22.56	42.44	367.67
29	65.00	20.22	44.78	322.89
30	65.00	17.76	47.24	275.65
31	65.00	15.16	49.84	225.81
32	65.00	12.42	52.58	173.23
33	65.00	9.53	55.47	117.76
34	65.00	6.48	58.52	59.24
35	62.50	3.26	59.24	

SEMI-ANNUAL PAYMENTS

No. of years	Instalment semi-annually	Interest at $5\frac{1}{2}\%$	Applied on principal	Balance of Principal unpaid
0				\$1000.00
½	\$32.50	\$27.50	\$5.00	995.00
1	32.50	27.36	5.14	989.86
1½	32.50	27.22	5.28	984.58
2	32.50	27.08	5.42	979.16

2½	32.50	26.93	5.57	973.59
3	32.50	26.77	5.73	967.86
3½	32.50	26.62	5.88	961.98
4	32.50	26.45	6.05	955.93
4½	32.50	26.29	6.21	949.72
5	32.50	26.12	6.38	943.34
5½	32.50	25.94	6.56	936.78
6	32.50	25.76	6.74	930.04
6½	32.50	25.58	6.92	923.12
7	32.50	25.39	7.11	916.01
7½	32.50	25.19	7.31	908.70
8	32.50	24.99	7.51	901.19
8½	32.50	24.78	7.72	893.47
9	32.50	24.57	7.93	885.54
9½	32.50	24.35	8.15	877.39
10	32.50	24.13	8.37	869.02
10½	32.50	23.90	8.60	860.42
11	32.50	23.66	8.84	851.58
11½	32.50	23.42	9.08	842.50
12	32.50	23.17	9.33	833.17
12½	32.50	22.91	9.59	823.58
13	32.50	22.65	9.85	813.73
13½	32.50	22.38	10.12	803.61
14	32.50	22.10	10.40	793.21
14½	32.50	21.81	10.69	782.52
15	32.50	21.52	10.98	771.54
15½	32.50	21.22	11.28	760.26
16	32.50	20.91	11.59	748.67
16½	32.50	20.59	11.91	736.76
17	32.50	20.26	12.24	724.52
17½	32.50	19.92	12.58	711.94
18	32.50	19.58	12.92	699.02
18½	32.50	19.22	13.28	685.74
19	32.50	18.86	13.64	672.10
19½	32.50	18.48	14.02	658.08
20	32.50	18.10	14.40	643.68
20½	32.50	17.70	14.80	628.88
21	32.50	17.29	15.21	613.67
21½	32.50	16.88	15.62	598.05
22	32.50	16.45	16.05	582.00
22½	32.50	16.01	16.49	565.51
23	32.50	15.55	16.95	548.56
23½	32.50	15.09	17.41	531.15
24	32.50	14.61	17.89	513.26
24½	32.50	14.11	18.39	494.87
25	32.50	13.61	18.89	475.98
25½	32.50	13.09	19.41	456.57
26	32.50	12.56	19.94	436.63
26½	32.50	12.01	20.49	416.14
27	32.50	11.44	21.06	395.08
27½	32.50	10.86	21.64	373.44
28	32.50	10.27	22.23	351.21
28½	32.50	9.56	22.84	328.37
29	32.50	9.03	23.47	304.90
29½	32.50	8.38	24.12	280.78
30	32.50	7.72	24.78	256.00
30½	32.50	7.04	25.46	230.54
31	32.50	6.34	26.16	204.38
31½	32.50	5.62	26.88	177.50
32	32.50	4.88	27.62	149.88
32½	32.50	4.12	28.38	121.50
33	32.50	3.34	29.16	92.84
33½	32.50	2.54	29.96	62.38
34	32.50	1.72	30.78	31.60
34½	32.50	.90	31.50	—

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The following abbreviations are used:

F F L Bonds — Federal Farm Loan Bonds
F L B — Federal Land Banks
N F L A — National Farm Loan Associations

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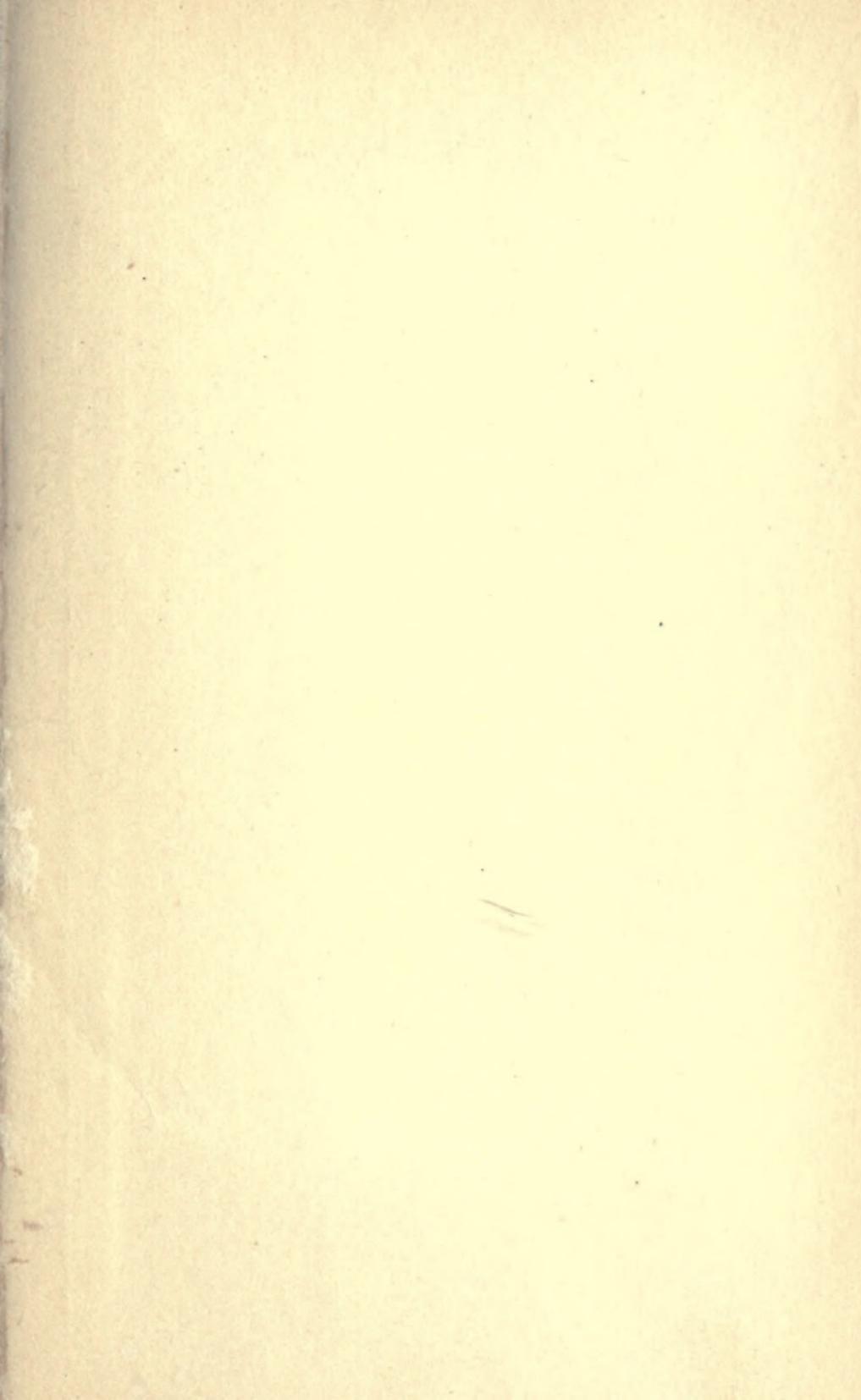
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